DOCUMENT RESUME

ED 173 900 EA 011 867

AUTHOR Berke, Joel S.; And Others
TITLE School Finance in the 70's: The Background for Policy Development.
INSTITUTION Educational Testing Service, Washington, D.C. Education Policy Research Inst.
SPONS AGENCY Department of Health, Education, and Welfare, Washington, D.C.
PUB DATE 15 Jun 75
CONTRACT OEC-0-72-5017
NOTE 110p.; Not available in paper copy due to marginal legibility of original document; Some charts may be illegible

EDRS PRICE MF01 Plus Postage. PC Not Available from EDRS.
DESCRIPTORS Court Doctrine; Court Litigation; Court Role; *Educational Finance; Elementary Secondary Education; *Equalization Aid; *Federal Aid; Finance Reform; Financial Policy; Fiscal Capacity; Fund Raising; Property Taxes; Resource Allocations; School District Spending; School Taxes; State Aid; State School District Relationship; Tax Effort
IDENTIFIERS Education Amendments 1974; Lau v Nichols; Robinson v Cahill; Rodriguez v San Antonio Independent School Dist; Serrano v Priest

ABSTRACT

This document provides background information intended to help in the formulation of educational finance policy at the national level. The first chapter discusses variations in spending within and between states since the 1930s; causes for inequitable and inefficient revenue raising and resource allocation; and differences between states in effectiveness of educational finance. The second chapter analyzes the role of federal aid in school finance. The third and final chapter presents the context for policy development, including the updating of equalization aid policies, the impact of court decisions on educational finance, and the role of the Education Amendments of 1974. (PGD)

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SCHOOL FINANCE IN THE 70's:

THE BACKGROUND FOR POLICY DEVELOPMENT

Prepared by

The Educational Policy Research Institute
of the Educational Testing Service
under subcontract with
The Educational Finance and Governance Center
of the Syracuse University Research Corporation
under contract with DHEW
OEC-0-72-5017

January 15, 1975

EA 011 867

ACKNOWLEDGEMENTS

This paper was written by Joel S. Berke, Judy G. Sinkin, and Terry Hartle. Marianna B. Diggs and Nancy B. Freeman assisted in a variety of ways. Data was prepared by Robert E. Firestine, Dana W. Paige and Tony LaMacchia, drawing upon the Educational Finance and Governance Center's data bank of merged census and school finance statistics. We have appreciated the suggestions received from James Fox and Anthony Carnevale of the policy development staff of the Assistant Secretary for Education.

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INTRODUCTION

"School Finance in the '70's" has been prepared by the Educational Policy Research Institute of Educational Testing Service and the Educational Finance and Governance Center (EFGC) of the Syracuse University Research Corporation (SURC) to assist in developing effective Federal policies regarding the raising and distributing of revenues for public elementary and secondary education. This report is intended as a background document summarizing recent developments and trends in school finance. Generally, the paper draws upon six years of EFGC studies at the Federal, state, and local levels. More particularly, it is based upon our current research agenda as an Education Policy Research Center reporting initially to the United States Office of Education and, more recently, to the Assistant Secretary for Education.

Two main factors influence educational policy formulation:

- research seeking the answers to important and difficult technical questions; and
- the role the Federal government plays in America's education system. That role is shaped by tradition, current administration philosophy, and an appreciation of congressional attitudes and interests as well as the views of Educational Division officials about long term goals and short term feasibility.

Context and timing also contribute to educational policy: but lunch programs were a product of the depression of the 1930's; the National Defense Education Act was the hallmark of the post-sputnik era; the

Elementary and Secondary Education Act mirrored a national concern with problems of poverty and the quality of education. We believe that the legislative and judicial developments reshaping systems of school finance in a number of states set the tone for contemporary policy thinking about the Federal role in school finance. Several provisions of P.L. 93-380 support the view that achieving greater equity in the raising and distributing of revenues for public education is becoming accepted as a goal of Federal as well as state policy.

Our hope is that the analysis we present in this report will assist decisionmakers to arrive at better informed and more carefully conceived judgements as they consider potential Federal policies in the field of financing public education.

CHAPTER I

THE PROBLEM: INEQUITY AND INEFFICIENCY IN SCHOOL FUNDING

Millions of American school children receive inferior educational programs because of substantial problems affecting the financing of public education today. The roots of these problems do not lie in an overall inadequacy of public funding for education, but in the inequitable and inefficient way most educational revenues are raised and distributed in the United States. In most states, there is a substantial disparity in the level of educational programs provided for youngsters within the state. While some youngsters go to school in exemplary surroundings with highly qualified teaching staff and up-to-date facilities, others are consigned to deteriorating or overcrowded schools, with high pupil/teacher ratios, lower caliber teaching staff, and inadequate and obsolete equipment and materials. Such variations frequently are unrelated either to the degree of tax effort in the school district or to the educational needs of the pupils.

These problems are primarily caused by individual state policies, but collectively they have serious national impact as they determine the quality of education received by all Americans. Although some groups and regions suffer more than others, the youngsters affected by these problems cannot be classified easily. Some live in residential suburbs, others in large central cities, still others in rural areas. All racial and ethnic groups are included among the victims of fiscally induced denial of equal educational opportunity.

If the Education Division is to design Federal legislation to provide an incentive and an impetus for improving the funding of public education in America, a sophisticated understanding of both the dimensions and the character of current problems is essential. The development of remedial programs will require an appreciation of the complexity and variety of current state approaches to change. This chapter attempts to meet that need.

Variations in Spending

The range in educational services within states is one illustration of the denials of equality of opportunity inherent in state school finance systems. Table I illustrates the range of expenditures between the highest and lowest spending school districts in each state. To eliminate the extremes, the table also shows the range in expenditures after the highest and lowest spending districts (columns 2 & 3) are removed. In Wyoming the ratio of expenditures from the 95th to the 5th percentile is more than five to one, and in many others the range is one and a half to one. Even after the extreme districts at the ends of the spending range have been eliminated, the disparities in many states are significant. As we shall see shortly, very little of that disparity is the result of state and Federal policies to aid pupils with expensive learning needs. Rather, the special educational privileges made available to pupils in high spending districts and the relative discrimination to those at the bottom of the range are primarily the result of the arbitrary functioning of outmoded state finance systems.

TABLE I

SCHOOL DISTRICT PER-PUPIL EXPENDITURE
DISPARITIES, 1969-70

State	Ratio of Max./Min.	Ratio of Max./Min. 5th-95th Percentile	Ratio of Max./Min. 10th-90th Percentile
Alabama	2.0/1	1.4/1	1.3/1
Alaska	3.8/1	1.7/1	1.6/1
Arizona	7.1/1	3.0/1	2.3/1
Arkansas	3.4/1	1.9/1	1.6/1
California	7.9/1	2.5/1	2.0/1
Colorado	6.3/1	2.4/1	2.1/1
Connecticut	6.3/1	2.4/1	2.1/1
Delaware	1.7/1	1.2/1	1.2/1
Florida	1.8/1	1.5/1	1.4/1
Georgia	2.0/1	1.4/1	1.3/1
Hawaii	1.3/1	1.3/1	1.2/1
Idaho	6.6/1	2.1/1	1.8/1
Illinois	5.9/1	2.2/1	1.8/1
Indiana	2.6/1	1.6/1	1.5/1
Iowa	2.0/1	1.6/1	1.4/1
Kansas	3.2/1	2.1/1	1.7/1
Kentucky	2.6/1	1.4/1	1.3/1
Louisiana	1.8/1	1.7/1	1.3/1
Maine	9.1/1	1.9/1	1.7/1
Maryland	1.6/1	1.2/1	1.2/1
Massachusetts	9.3/1	2.3/1	2.0/1
Michigan	3.1/1	1.7/1	1.4/1
Minnesota	4.0/1	1.6/1	1.4/1
Mississippi	2.6/1	1.8/1	1.5/1
Missouri	9.1/1	2.2/1	1.8/1
Montana	18.2/1	4.1/1	3.0/1

Continued ....

TABLE I

SCHOOL DISTRICT PER-PUPIL EXPENDITURE
DISPARITIES, 1969-70
(Continued)

State	Ratio of Max./Min.	Ratio of Max./Min. 5th-95th Percentile	Ratio of Max./Min. 10th-90th Percentile
Nebraska	12.4/1	3.5/1	2.6/1
Nevada	2.2/1	2.2/1	1.4/1
New Hampshire	4.8/1	2.2/1	1.8/1
New Jersey	5.9/1	1.9/1	1.7/1
New Mexico	2.5/1	1.9/1	1.7/1
New York	11.4/1	1.9/1	1.6/1
North Carolina	1.6/1	1.4/1	1.3/1
North Dakota	24.0/1	2.1/1	1.7/1
Ohio	4.1/1	1.7/1	1.5/1
Oklahoma	29.7/1	2.5/1	2.0/1
Oregon	11.4/1	2.7/1	2.1/1
Pennsylvania	7.9/1	2.1/1	1.5/1
Rhode Island	2.3/1	1.7/1	1.5/1
South Carolina	1.5/1	1.3/1	1.3/1
South Dakota	34.2/1	3.6/1	2.6/1
Tennessee	2.5/1	1.6/1	1.4/1
Texas	56.2/1	2.8/1	2.1/1
Utah	2.8/1	1.9/1	1.6/1
Vermont	4.2/1	2.2/1	1.9/1
Virginia	2.6/1	1.5/1	1.4/1
Washington	9.2/1	2.6/1	1.8/1
West Virginia	1.4/1	1.3/1	1.2/1
Wisconsin	3.4/1	1.7/1	1.4/1
Wyoming	20.2/1	5.6/1	4.4/1

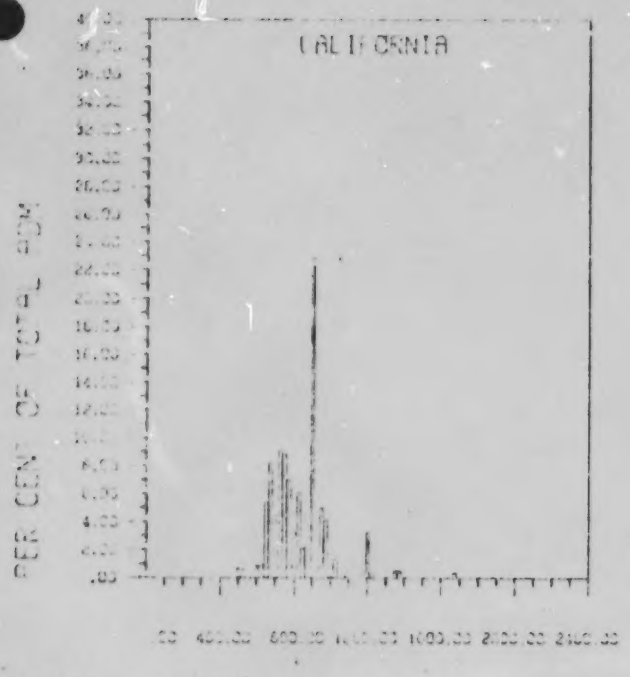
Source: The President's Commission of School Finance, Review of Existing State School Finance Programs, Volume II. (Washington: GPO, 1972) p.13.

The Distribution of Spending Disparities within States

If such disparities affected only a small number of pupils at the extreme ends of the spending range, the problem would be minimal. In most states, however, school districts with substantial numbers of pupils are spread widely through the spending range. The following computer graphs show the proportions of pupils in districts receiving different spending levels in twelve representative states. Except in Mississippi where the per pupil expenditure is between $375 and $425 for 50 percent of the pupils, and North Carolina where the per pupil expenditure is between $500 and $550 for 49 percent of the pupils, the spread in the bars of the graph shows that state/local finance systems distribute markedly uneven amounts of educational revenues to significant numbers of pupils.

The Trend in Spending Variations: 1939-40 to 1969-70

Inequality of educational opportunity stemming from inequitable school finance systems is not new. It has been the stuff of school finance since the turn of the century. Until recently, however, the significance of the effect of complicated formulas and local finance assistance has been recognized by only a small group of specialists. While their labors have produced school finance formulas capable of overcoming spending disparities, states have seldom enacted such provisions without substantial dilution. Still, there has been progress over the years. Professor Eugene McLoone's recent study for the National Center for Educational Statistics, Profiles in School Support, 1969-70 is the



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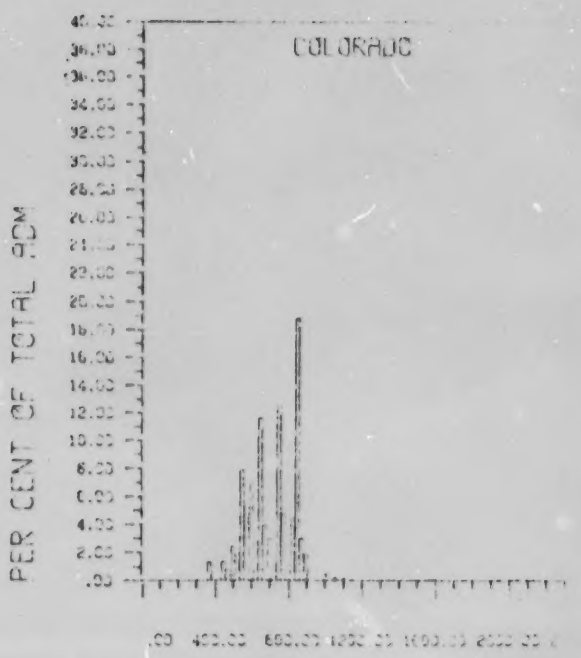

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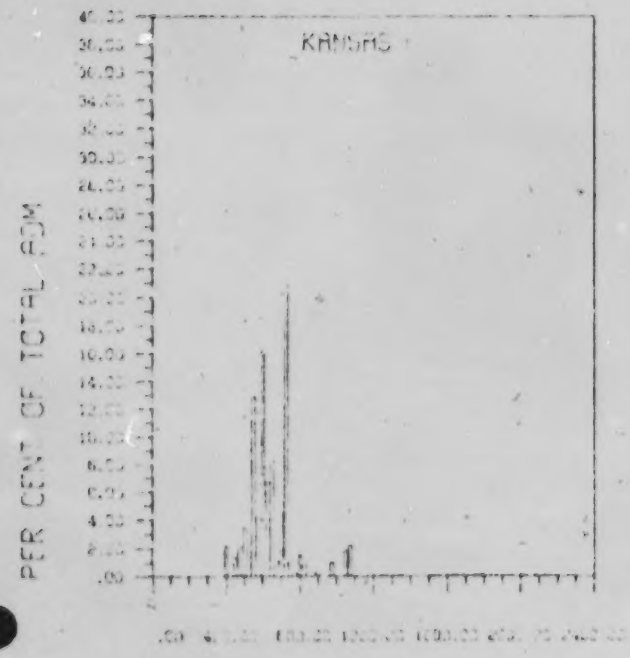

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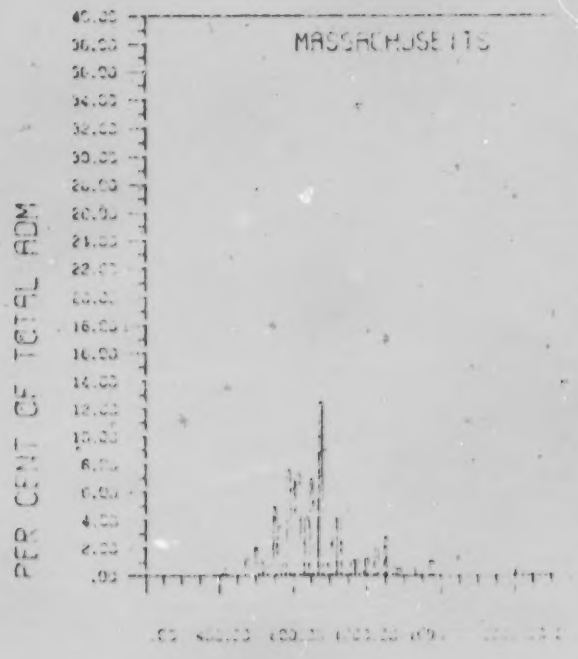

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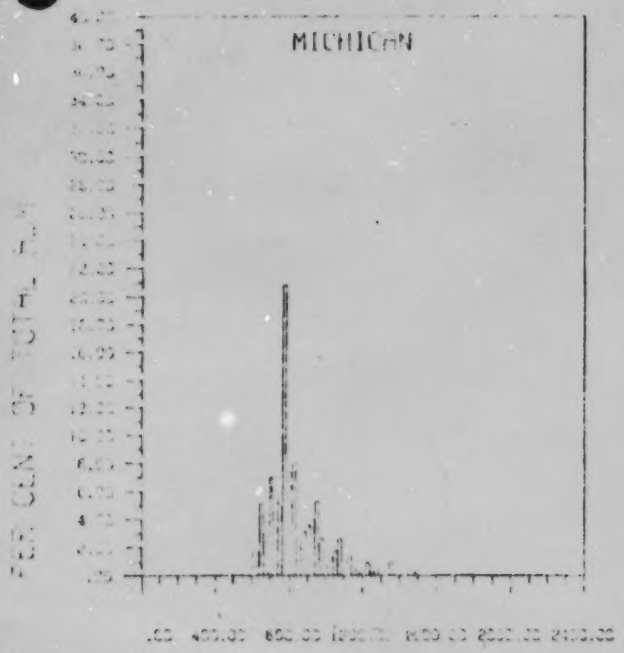

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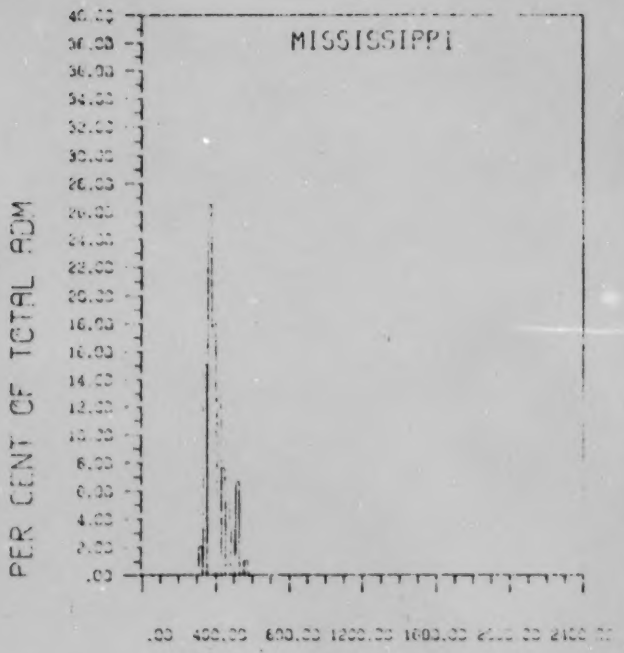

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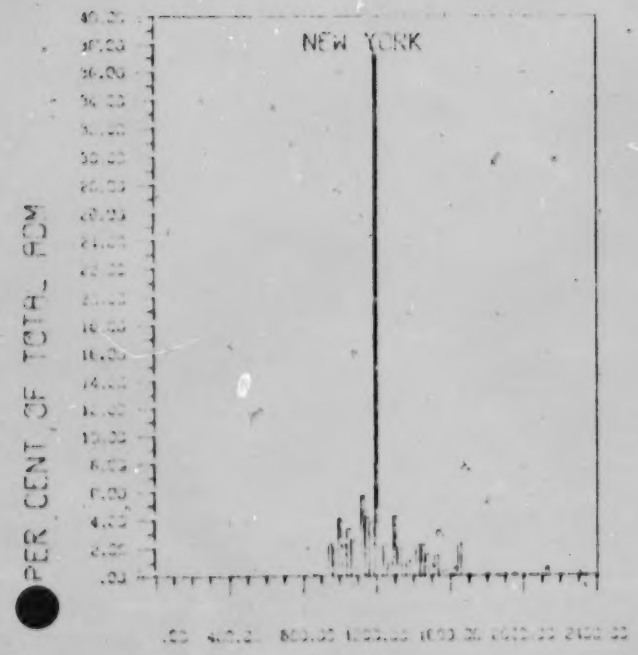

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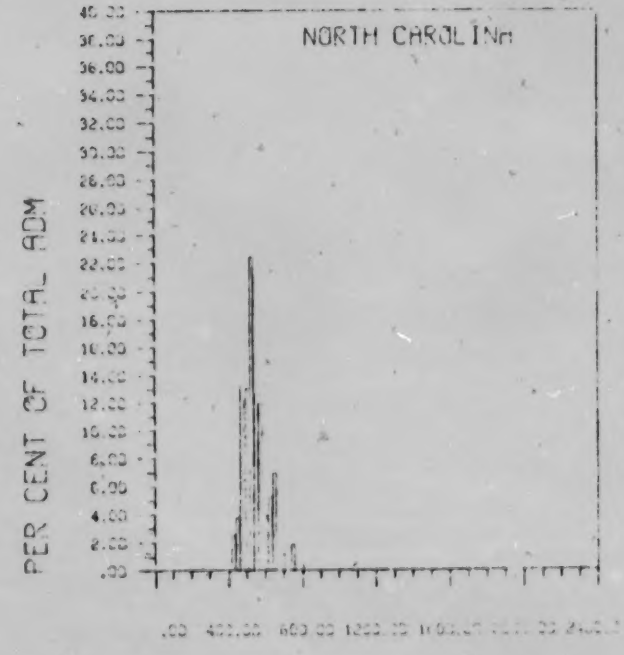

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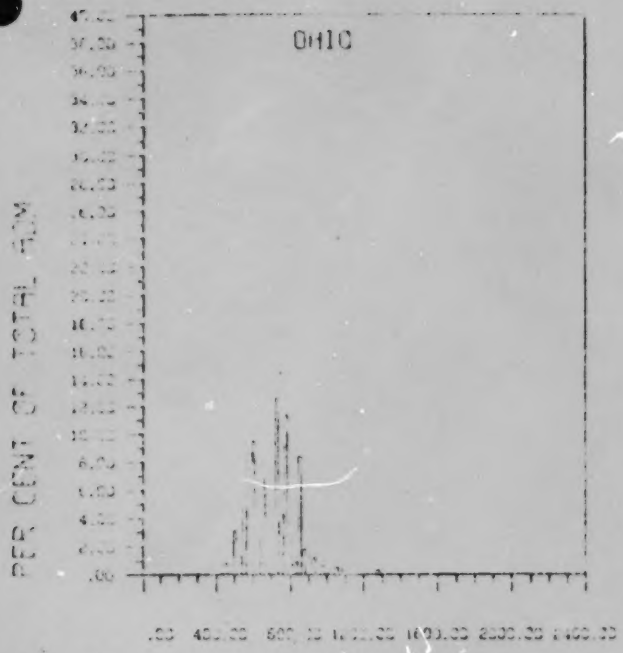

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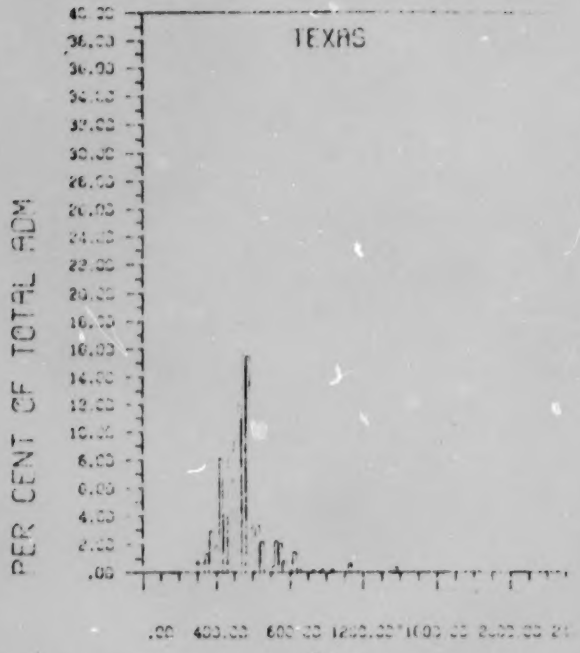

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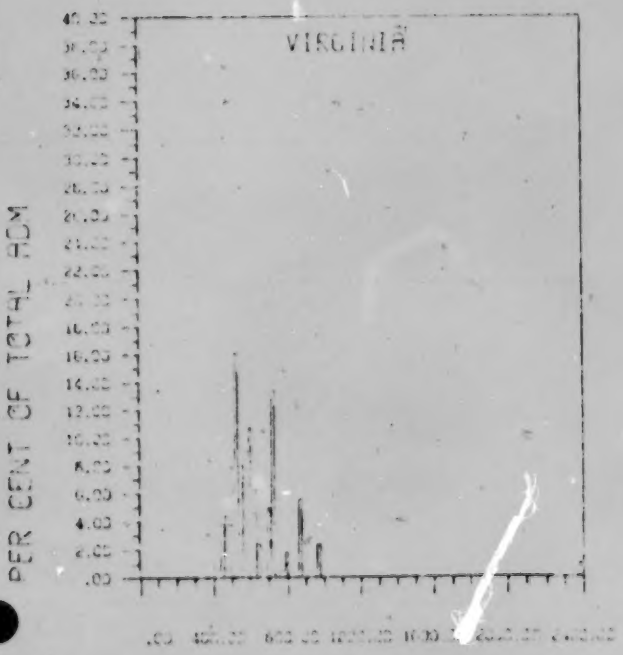

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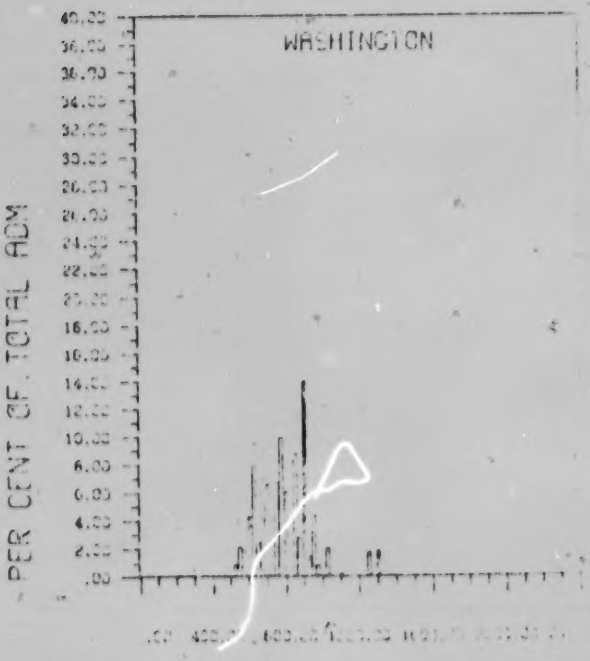

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fourth in a series of decennial analyses of, among other things, the range of inequality in school spending. Professor McLoone's coefficients of inequality calculated for 1939-40, 1949-50, 1959-60, and 1969-70 "indicate improvement in the degree to which educational expenditures are being equalized..." [1/] for the United States. McLoone also calculated coefficients for each of the states. He found that the coefficient variations had decreased substantially from 1939-40 to 1959-60 indicating "considerable progress in many states toward equalizing school expenditure." In the last ten years, however, he found a reversal of the process in thirty-three states, with the coefficients of inequality increasing [less equality]. In short, while there has been long run progress in decreasing inequality of school spending, such progress slowed in the decade of the 60's and was reversed in many states.

The Trend in Spending Variations: the 1970's

What is the most recent trend? What effect has accompanied the wave of reform in school finance systems of the last two years? The answer at this point is uncertain. While as many as ten or twelve states have passed new school finance formulas designed to lessen inequalities in school revenues, a careful examination of these formulas would show that not all have the potential for major reform. Further, some of those that do were passed by states such as Florida and Utah which already had far better than average school finance systems.

1/ USDHEW, National Center for Educational Statistics, Profiles in School Support, 1969-70 (Washington: GPO, 1974), p. 86.

TABLE II

COEFFICIENTS OF INEQUALITY

State[a/]	1939-40	1949-50	1959-60	1969-70
UNITED STATES	.288	.201	.179	.168
Alabama	.279	.084	.052	.103
Alaska	NA	.086	.035	.053
Arizona	.053	.169	.118	.132
Arkansas	.278	.114	.086	.093
California	.146	.139	.102	.086
Colorado	.143	.134	.079	.089
Connecticut	.126	.105	.088	.113
Delaware	.096	.107	.109	.100
Florida	.215	.090	.066	.076
Georgia	.321	.123	.083	.093
Idaho	.093	.103	.077	.063
Illinois	.170	.135	.112	.143
Indiana	.144	.154	.092	.091
Iowa	.084	.074	.029	.103
Kansas	.123	.140	.053	.076
Kentucky	.265	.308	.156	.093
Louisiana	.292	.080	.059	.055
Maine	.145	.123	.103	.103
Maryland	.132	.081	.070	.072
Massachusetts	.120	.102	.088	.104
Michigan	.156	.138	.149	.122
Minnesota	.171	.097	.128	.093
Mississippi	.452	.391	.105	.119
Missouri	.217	.169	.108	.129
Montana	.076	.054	.039	.182
Nebraska	.059	.023	.029	.088
Nevada	.112	.110	.021	.018
New Hampshire	.093	.101	.074	.099

Continued.....

TABLE II

COEFFICIENTS OF INEQUALITY

(Continued)

State [a]	1939-40	1949-50	1959-60	1969-70
New Jersey	.139	.151	.104	.104
New Mexico	.152	.086	.062	.052
New York	.099	.085	.104	.115
North Carolina	.131	.064	.067	.071
North Dakota	.106	.015	.052	.092
Ohio	.163	.128	.129	.121
Oklahoma	.120	.069	.024	.122
Oregon	.128	.083	.042	.065
Pennsylvania	.196	.146	.081	.113
Rhode Island	.103	.109	.069	.101
South Carolina	.304	.155	.070	.066
South Dakota	.050	.005	.019	.089
Tennessee	.179	.108	.111	.117
Texas	.164	.099	.080	.092
Utah	.064	.044	.025	.037
Vermont	.119	.110	.113	.237
Virginia	.273	.173	.134	.113
Washington	.091	.072	.039	.099
West Virginia	.075	.068	.059	.092
Wisconsin	.155	.122	.130	.083
Wyoming	.076	.107	.072	.081

[a] The District of Columbia and Hawaii are not included, but they are included in the U.S. data.

Source: USDHEW, National Center for Education Statistics, Profiles in School Support, 1969-70, (Washington: GPO, 1974) p. 86.

Additionally, in states like Maine where the new plans marked major improvements over previous laws, interim provisions designed to phase in the law will moderate its effect for the first few years and, if such provisions are not altered thereafter, may well modify much of the progress. In short, despite a significant mood of reform and the passage of several pieces of landmark state legislation in 1973 and 1974, the ability of the new laws to reduce inequalities is still unproven. For the vast majority of states, existing systems result in inequitable and inefficient funding patterns.[1/]

1/ Joel S. Berke, Answers to Inequity: An Analysis of the New School Finance (Berkeley, California: McCutchan Publishing Co., 1974), Chapters 4 and 6. W. Norton Grubb, New Programs of State School Aid (Washington, D.C.: National Legislative Conference, 1974). Also unpublished EFGC reports.

Unequal Distribution of Taxable Resources

We begin with a simple example to illustrate the basic problems: unfairness in raising revenues for education and inefficiency in their distribution. First, let us suppose that a school finance system assigned less educational revenues to some children than to others, gave higher revenues to pupils in richer school districts, yet taxed the poorer districts at higher tax rates. That, we suggest, would be unfair and inequitable. Second, let us assume that the system assigned more educational revenues to the pupils most likely to succeed on their own, and lower levels of educational services to those pupils whose need for high quality or high cost education was the greatest -- the handicapped, the poor, the bilingual, the victims of prejudice, and those whose home backgrounds are less well oriented toward school achievement. That allocation system would be inefficient, particularly if its goal were to prepare as many youngsters as possible to become productive and effective citizens. Such unfair and inefficient systems, however, are not just hypothetical examples. As our data will show, they are accurate descriptions of the existing approach to financing education in the majority of states.

Tax Base Disparities

How do these dysfunctional results come about? The starting point in unraveling the causes of the problem lies with the markedly unequal distribution of taxable resources for education among the school districts of most states. Since the local property tax raises the vast majority of tax revenues in independent school districts, the

distribution of taxable real property is critical. Table III illustrates in a systematic fashion the range in distribution of property values in the twelve state sample which is the basis for much of the analysis in this paper. School districts in each state are broken into quintiles according to equal numbers of pupils attending districts with decreasing property tax valuations. These quintiles are further broken down to reveal the district with the highest property tax base (maximum), the lowest (minimum), and the weighted mean.

Texas shows a ratio of 7 to 1 between the mean property tax valuations in the highest and lowest quintile. On the other hand, the difference in property valuation between the richest district in the state (1st quintile, maximum) and the poorest district (5th quintile, minimum) reveals a ratio of 95 to 1.

A similar pattern is observed in New York. The ratio between the means of the 1st and 5th quintiles is nearly 4 to 1, while the difference in property valuations between the richest and poorest districts is more than 8 to 1.

The other ten states in the table all exhibit similar patterns of disparities in property valuation.

TABLE III

SELECTED FISCAL CHARACTERISTICS OF EXAMPLE DISTRICTS [a/]

	Equalized Value Per Pupil 1969-70	State and Local Revenue Per Pupil 1969-70	Equalized Tax Rate Per Pupil 1969-70
CALIFORNIA [b/]			
San Francisco City Unified	121,942	1,197	7.60
Garden Grove Unified	21,142	666	11.59
COLORADO [b/]			
Summit	60,443	944	12.70
Westminister	13,690	619	21.68
KANSAS [b/]			
Lorraine 328	231,844	1,521	3.40
Coffeyville 445	30,493	672	9.34
MASSACHUSETTS			
Everett	50,552	944	16.10
Sutton	15,686	814	32.85
MICHIGAN [b/]			
South Redfore	26,487	1,062	29.32
St. Clair Shores	8,465	723	35.64
MISSISSIPPI			
Rankin County	35,643	413	3.07
Marshall County	13,758	363	4.69
NEW YORK			
Locust Valley	61,260	1,654	21.08
Altmar-Parish	11,382	1,180	21.85
NORTH CAROLINA			
Raleigh City	73,923	631	3.33
Richmond County	16,931	485	5.80
OHIO			
Indian Creek	74,291	803	8.07
St. Henry Consolidated	25,579	635	8.80

Continued.....

TABLE III

SELECTED FISCAL CHARACTERISTICS OF EXAMPLE DISTRICTS[a/]
(Continued)

	Equalized Value Per Pupil 1969-70	State and Local Revenue Per Pupil 1969-70	Equalized Tax Rate Per Pupil 1969-70
TEXAS			
Brooks ISD	136,380	756	4.23
Ysleta ISD	12,115	371	6.17
VIRGINIA			
Alexandria City	67,290	871	10.49
Lee County	17,366	667	12.96
WASHINGTON [b/]			
Renton	39,090	1,137	15.59
Edmonds	9,115	829	28.46

a/ Pupil counts are Average Daily Membership. State and local revenue includes funds raised from intermediate sources. (e.g., county taxes).

b/ Tax rates are computed by dividing local tax receipts by market value of property.

TABLE IV

PROPERTY VALUATION PER PUPIL[a/]

	California Unified	Colorado	Kansas	Massachusetts	Michigan	Mississippi	New York	North Carolina	Ohio	Texas	Virginia	Washington
1st Quintile[b/]												
Mean	96,054	47,925	160,621	43,838	26,307	33,255	51,899	69,635	69,118	118,438	52,998	31,788
Max.	188,473	111,471	306,801	80,645	57,093	43,723	79,757	151,675	105,014	456,048	88,485	81,197
Min.	63,243	32,538	113,215	32,468	19,931	27,659	36,961	45,984	56,228	57,479	36,852	20,297
2nd Quintile												
Mean	53,569	29,676	88,684	28,089	17,935	26,327	30,286	37,957	52,357	43,805	31,457	18,830
Max.	62,798	32,409	101,753	31,490	19,742	27,551	36,922	44,124	54,631	54,667	36,812	20,255
Min.	45,106	27,102	76,791	25,775	16,513	25,090	26,182	33,271	49,979	36,004	29,619	17,153
3rd Quintile												
Mean	40,674	24,158	67,130	23,868	14,415	23,156	23,633	30,317	44,336	32,740	26,888	15,733
Max.	44,876	26,991	75,578	25,751	16,033	24,908	26,052	32,914	49,401	35,484	29,447	16,953
Min.	36,805	22,612	63,224	22,053	12,926	21,170	21,574	27,193	41,064	30,601	24,016	14,071
4th Quintile												
Mean	31,459	19,266	50,855	20,170	11,844	18,833	19,492	23,911	35,767	25,790	23,332	13,102
Max.	36,379	22,101	61,955	21,999	12,843	21,073	21,084	26,898	40,755	29,543	24,855	13,760
Min.	28,342	16,055	40,924	18,555	10,946	17,128	17,649	21,467	31,451	23,448	20,787	11,955
5th Quintile												
Mean	23,460	12,506	31,517	16,505	9,113	14,826	13,492	18,505	27,175	16,662	18,420	10,036
Max.	28,329	15,356	40,761	18,490	10,941	16,615	17,239	21,393	31,340	23,256	20,582	11,811
Min.	10,117	6,699	18,370	12,822	5,529	11,498	9,326	14,040	13,728	4,792	14,853	8,509

[a/] Valuations are full market value of property divided by Average Daily Membership (ADM).

[b/] Quintiles contain approximately equal numbers of ADM. Districts over 5% of state ADM are excluded.

The Local Property Tax

The means for tapping these property resources is the local property tax, a tax that has long been the subject of criticism. In recent years the nature of this tax has become a subject of increasing debate. Some economists have argued that the property tax is highly regressive, while others maintain that it is at least slightly progressive. Even public attitudes seem to be undergoing change. While a 1972 Advisory Commission on Intergovernmental Relations (ACIR) report found the property tax to be the most unpopular of all major taxes, a more recent ACIR survey reported that public opinion vis a vis taxes had shifted and the property tax is no longer rated as less popular than the income tax. 1/

Even if the property tax is assumed to be inherently progressive, several factors cause discontent. The administration of the tax is discriminatory and arbitrary. Assessors are often untrained and in some states are elected. Within jurisdictions properties are not all assessed at the same proportion of market value:

> Assessment of property values is a judgemental process. Unless the property has recently been sold, its market value can only be estimated. The possibility of favoritism, corruption, and carelessness is always present. The result is that the ratios of assessed valuations to objectively determined market values often vary greatly. For example, a study of Boston showed that in 1962 the ratio of assessed to market value of single family homes ranged from 0.28 in East Boston to 0.54 in predominantly black Roxbury, while assessment ratios on commercial property ranged from 0.59 in Hyde Park to 1.11

1/ See Advisory Commission on Intergovernmental Relations, Public Opinion and Taxes, (Washington, D.C.: 1972); and Advisory Commission on Intergovernmental Relations, Changing Public Attitudes on Governments and Taxes, (Washington, D.C.

> in South Boston. This suggests that some Boston homeowners were paying double the tax rate that others paid, while owners of some commercial property were paying at a rate four times that of the most fortunate homeowners. 1/

The multiplicity of separate taxing jurisdictions compounds the problem. Again quoting Reischauer and Hartman:

> The fact that the distribution of the base is clearly unrelated to educational need creates ..... inequities among taxpayers, because a higher tax rate is needed in a poor community than in a wealthy community to generate an equal amount of school revenue per pupil. 2/

Yet despite the controversy surrounding the venerable tax on real property, two of its features must be appreciated: it is (1) an extraordinarily productive and (2) stable source of governmental revenues. Between April 1971 and April 1972 it raised $42 billion for domestic governmental services, a total exceeded only by the Federal taxes on personal incomes and payrolls. 3/ And because the tax tends to rise and fall only marginally from year to year, it permits governments to determine their fiscal future with some confidence. Thus, while the future will probably bring improvements in the administration of the property tax and perhaps an occasional shift of the property tax to the state level, one thing can be predicted with certainty: the property tax is here to stay.

1/ Reischauer, Robert and Hartman, Robert, Reforming School Finance (Washington, D.C.: Brookings Institution, 1972), pp.26-27.

2/ Ibid.

3/ U.S. Department of Commerce, Bureau of the Census, Governmental Finances in 1970-71 (Washington: Government Printing Office, 1972), p.2.

TABLE V

TOTAL STATE AND LOCAL REVENUE PER PUPIL[a/]
(Grouped by Property Valuation)

	California Unified[c/]	Colorado[c/]	Kansas[c/]	Massachusetts	Michigan[c/]	Mississippi	New York	North Carolina	Ohio	Texas	Virginia	Washington[c/]
1st Quintile[b/]												
State & Local	1096	909	1089	1045	1082	440	1492	606	879	727	763	870
Tax Rate[d/]	9.07	13.83	3.56	22.07	27.62	4.58	20.59	3.12	9.40	4.61	10.71	11.43
2nd Quintile												
State & Local	867	797	849	950	978	409	1257	557	840	570	602	920
Tax Rate[d/]	10.76	17.28	5.00	28.01	29.87	4.19	21.57	4.45	10.64	6.34	11.28	17.67
3rd Quintile												
State & Local	766	671	750	880	868	429	1252	524	751	556	576	866
Tax Rate[d/]	10.38	14.78	5.29	28.26	29.42	5.85	23.53	4.26	10.61	8.14	11.25	17.65
4th Quintile												
State & Local	754	670	727	892	815	405	1153	527	705	492	575	830
Tax Rate[d/]	11.72	18.64	6.31	32.46	29.70	5.79	21.50	5.00	10.94	7.37	13.46	19.81
5th Quintile												
State & Local	726	565	628	859	744	378	1133	509	650	436	573	816
Tax Rate[d/]	11.84	17.12	8.57	37.38	29.96	5.93	20.41	5.27	10.95	8.59	13.44	19.32

[a/] Data is for 1969-70 school year and per pupil counts are Average Daily Membership.

[b/] Quintiles are arranged in descending order of property valuation and contain approximately equal numbers of ADM. Districts over 5% of state ADM are excluded.

[c/] State and local revenue includes revenues raised from intermediate sources (e.g., county taxes).

[d/] Tax rates are computed by dividing local tax receipts by market value of property.

TABLE Va

TOTAL STATE AND LOCAL REVENUES PER PUPIL
(Districts over 5% of State ADM)

	Quintile[a]	State & Local	Tax Rate[c]
CALIFORNIA[b]			
Los Angeles Unified	1st	925	9.12
COLORADO[b]			
Denver	1st	860	15.53
Colorado Springs	2nd	738	15.58
Jefferson	3rd	758	22.73
KANSAS[b]			
Kansas City	2nd	660	3.94
Shawnee	3rd	658	5.47
Wichita	5th	820	11.12
MASSACHUSETTS			
Boston	4th	941	33.40
MICHIGAN [b]			
Detroit	2nd	805	23.08
MISSISSIPPI			
Jackson Municipal Separate	1st	545	7.22
NEW YORK STATE			
New York City	1st	1222	15.90
NORTH CAROLINA			
Mecklenburg County Charlotte	2nd	672	8.69
OHIO			
Cleveland	1st	1004	10.32
TEXAS			
Dallas	1st	594	5.44
Houston	2nd	566	6.21
VIRGINIA			
Fairfax County	1st	772	12.36
Norfolk City	3rd	590	12.71
WASHINGTON [b]			
Seattle	1st	987	14.63

[a] These districts are not included in the quintile sorting, but the quintile number indicates where their property valuation falls relative to the rest of the state.

[b] State and local revenue includes revenues raised from intermediate sources (e.g., county taxes).

[c] Tax rates are computed by dividing local tax receipts by market value of property.

State Aid

The fact that distribution of revenues roughly parallels distribution of taxable resources demonstrates the failure of state aid to offset wealth disparities. At present, all but a few state formulas make some attempt at equalization, but with few exceptions, equalization fails to accomplish its objective. Table V shows that in seven of the twelve states in our sample, state aid distributions flow in an equalizing direction; that is, the poorer the quintile in property wealth, the more aid received. In New York the pattern is most marked of all, with the lowest wealth classification receiving more than twice the state aid as the richest. Yet even in New York the equalization formula fails to reach its objective: the richest districts raise far more per pupil without commensurately higher tax effort than do the districts that are the poorest in property values.

In several states the aid patterns are virtually flat, showing no effective state action to eliminate fiscal inequities. Kansas, Mississippi, North Carolina, Texas, and Washington fit that description.

TABLE V

STATE AND LOCAL REVENUES PER PUPIL[a/]
(Grouped by Property Valuation)

	California[c/]	Colorado[c/]	Kansas[c/]	Massachusetts	Michigan[c/]	Mississippi	New York	North Carolina	Ohio	Texas	Virginia	Washington[c/]
1st Quintile[b/]												
Total[d/]	1,096	909	1,089	1,045	1,082	440	1,492	606	879	727	763	870
State	247	189	258	116	321	274	417	390	166	249	564	423
Local	845	619	613	929	756	165	1,074	216	713	478	199	413
Tax Rate[e/]	9.07	13.83	3.56	22.07	27.62	4.58	20.59	3.12	9.40	4.61	10.71	11.43
2nd Quintile												
Total[d/]	867	797	849	950	978	409	1,257	557	840	570	602	920
State	266	220	276	162	376	290	575	382	174	282	363	509
Local	598	537	463	788	597	118	682	175	666	288	239	383
Tax Rate[e/]	10.76	17.28	5.00	28.01	29.87	4.19	21.57	4.45	10.64	6.34	11.28	17.67
3rd Quintile												
Total[d/]	766	671	750	880	868	429	12.52	524	751	556	576	866
State	313	242	261	197	379	281	671	386	214	275	325	515
Local	447	374	384	683	483	148	581	137	537	281	250	326
Tax Rate[e/]	10.38	14.78	5.29	28.29	29.42	5.85	23.0	4.26	10.61	8.14	11.25	17.65
4th Quintile												
Total[d/]	754	670	727	892	815	405	1,153	527	705	492	575	830
State	366	254	265	229	414	288	714	396	249	288	320	492
Local	385	370	356	663	401	118	439	131	456	204	254	311
Tax Rate[e/]	11.72	18.64	6.31	32.46	29.70	5.79	21.50	5.00	10.94	7.37	13.46	19.81
5th Quintile												
Total[d/]	726	565	628	859	744	378	1,133	509	650	436	573	816
State	427	284	256	239	454	283	843	404	286	282	267	508
Local	296	250	287	620	289	95	290	105	364	154	306	283
Tax Rate[e/]	11.84	17.12	8.57	37.38	29.96	5.93	20.41	5.27	10.95	8.59	13.44	19.32

TABLE V

STATE AND LOCAL REVENUES PER PUPIL

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a/ Data is for 1969-70 school year and per pupil counts are Average Daily Membership (ADM).

b/ Quintiles are arranged in descending order of property valuation and contain approximately equal numbers of ADM. Districts over 5% of state ADM are excluded.

c/ State and local revenue does not add up to total revenue because revenues raised from intermediate sources (e.g., county taxes) are included in the total.

d/ Totals are derived from non-rounded numbers therefore, state and local may not add to total because of rounding.

e/ Tax rates are computed by dividing local tax receipts for education by market value of property.

TABLE V a

STATE AND LOCAL REVENUES PER PUPIL
(Districts over 5% of State ADM)

	Quintile[a]	Total[b]	State	Local	Tax Rate[d]
CALIFORNIA[c]					
Los Angeles Unified	1st	$ 924.55	$ 285.73	$ 636.33	9.12
COLORADO[c]					
Denver	1st	859.69	140.60	719.09	15.53
Colorado Springs	2nd	738.33	223.96	463.81	15.58
Jefferson County	3rd	757.84	216.89	540.95	22.73
KANSAS[c]					
Kansas City	2nd	660.28	206.91	389.65	3.94
Shawnee	3rd	657.67	202.39	392.55	5.47
Wichita	5th	820.16	293.43	446.70	11.12
MASSACHUSETTS					
Boston	4th	941.08	262.48	678.60	33.40
MICHIGAN [c]					
Detroit	2nd	804.82	375.27	427.13	23.08
MISSISSIPPI					
Jackson Municipal Separate	1st	545.18	246.20	298.98	7.22
NEW YORK STATE					
New York City	1st	1,221.91	509.07	712.84	15.90
NORTH CAROLINA					
Mecklenburg County/ Charlotte	2nd	671.81	371.40	300.41	9.69
OHIO					
Cleveland	1st	1,003.67	188.94	814.73	10.32
TEXAS					
Dallas	1st	594.17	186.73	407.44	5.44
Houston	2nd	566.23	224.98	341.25	6.21
VIRGINIA					
Farifax County	1st	$ 771.53	$ 219.96	$ 551.57	12.36
Norfolk City	3rd	590.16	218.27	371.89	12.71
WASHINGTON[c]					
Seattle	1st	986.56	359.51	595.72	14.63

[a] These districts are not included in the quintile sorting, but the quintile number indicates where their property valuation falls relative to the rest of the state.

[b] Totals are derived from non-rounded numbers therefore, state and local revenues raised from intermediate sources (e.g., county taxes) are included in the total.

[d] Tax rates are computed by dividing local tax receipts for education by market value of property.

Federal Aid

Federal aid programs, with the exception of P.L. 874, have not been consciously designed to equalize property base differentials. Therefore, it is not surprising that Table VII shows no significant equalization effects. In only six of the twelve states do districts with the least property valuation get appreciably more aid than those that are richest. In four states the district richest in valuation actually received more Federal aid than the poorest, and throughout the range of the relationships are thoroughly scattered.[1/]

With P.L. 874, however, the situation is somewhat different. Designed to compensate school districts for costs associated with parents residing or working at non-taxable Federal installations, distributions under the program show a mild equalizing tendency. In ten of the twelve states, the highest average P.L. 874 payments go to the lowest or next to lowest quintile of districts in property valuation. In only two states, Virginia and Washington, do most P.L. 874 distributions go to the most property-rich quintiles (See Table VII). These findings, while they are not widely known, are consistent with the conclusions of previous studies of P.L. 874 by the Batelle Institute and the Stanford Research Institute.

[1/] For an earlier study of the proportions of Federal aid received by different types of school districts, see Joel S. Berke, Michael W. Kirst. Federal Aid to Education: Who Benefits, Who Governs. (Lexington, D. C. Heath), 1972, Chapter 1.

TABLE VI
TOTAL REVENUE PER PUPIL[a/]
(Grouped by Property Valuation)

	California[c/]	Colorado[c/]	Kansas[c/]	Massachusetts	Michigan[c/]	Mississippi	New York	North Carolina	Ohio	Texas	Virginia	Washington[c/]
1st Quintile[b/]												
Total Revenue[d/]	1,164	962	1,137	1,077	1,116	540	1,533	663	925	785	853	966
State & Local	1,096	909	1,089	1,045	1,082	440	1,492	606	879	727	763	870
Federal	68	53	47	32	34	100	42	57	46	58	89	96
2nd Quintile												
Total Revenue[d/]	925	847	895	977	1,011	515	1,306	619	876	620	659	971
State & Local	867	797	849	950	978	409	1,257	557	840	570	602	920
Federal	57	50	47	27	33	107	49	62	36	50	57	51
3rd Quintile												
Total Revenue[d/]	825	717	798	913	889	541	1,282	601	804	607	642	913
State & Local	766	671	750	880	868	429	1,252	524	751	556	574	866
Federal	60	45	48	33	21	112	30	77	54	51	67	46
4th Quintile												
Total Revenue[d/]	799	740	771	946	841	520	1,177	630	739	572	647	885
State & Local	754	670	727	892	815	405	1,153	527	705	492	574	830
Federal	45	69	44	54	25	115	24	103	34	80	72	55
5th Quintile												
Total Revenue[d/]	799	675	749	900	766	479	1,153	618	676	524	674	894
State & Local	726	565	628	859	744	378	1,133	509	650	436	572	816
Federal	73	110	121	41	22	101	20	109	26	87	102	78

[a/] Data is for 1969-70 school year and per pupil counts are Average Daily Membership.

[b/] Quintiles are arranged in descending order of property valuation and contain approximately equal numbers of ADM. Districts over 5% of state ADM are excluded.

[c/] State and local revenue does not add up to total revenue because revenues raised from intermediate sources (e.g., county taxes) are included in the total.

[d/] Totals are derived from non-rounded numbers therefore, state and local may not add to total because of rounding.

TABLE VI a

TOTAL REVENUE PER PUPIL
(Districts over 5% of state ADM)

	Quintile [a]	Total [b]	State & Local	Federal
CALIFORNIA [c]				
Los Angeles Unified	1st	976	925	51
COLORADO [c]				
Denver	1st	938	860	78
Colorado Springs	2nd	870	738	132
Jefferson County	3rd	781	758	23
KANSAS [c]				
Kansas City	2nd	770	660	110
Shawnee	3rd	681	658	23
Wichita	5th	887	820	67
MASSACHUSETTS				
Boston	4th	1008	941	67
MICHIGAN [c]				
Detroit	2nd	894	805	89
MISSISSIPPI				
Jackson Municipal Separate	1st	585	545	40
NEW YORK STATE				
New York City	1st	1320	1222	98
NORTH CAROLINA				
Mecklenburg County Charlotte	2nd	713	672	41
OHIO				
Cleveland	1st	1092	1004	88
TEXAS				
Dallas	1st	627	594	33
Houston	2nd	596	566	30
VIRGINIA				
Fairfax County	1st	920	772	148
Norfolk City	3rd	745	590	155
WASHINGTON [c]				
Seattle	1st	1039	987	52

[a] These districts are not included in the quintile sorting, but the quintile number indicates where their property valuation falls relative to the rest of the state.

[b] Totals are derived from non-rounded numbers therefore, state and local may not add to total because of rounding.

[c] State and local revenue include revenues raised from intermediate sources (e.g., county taxes).

TABLE VII

DISTRIBUTION OF P. L. 874 FUNDS PER PUPIL TO SCHOOL DISTRICTS IN SELECTED STATES
1969-1970
(Grouped by Property Valuation Per Pupil)

	California	Colorado	Kansas	Massachusetts	Michigan	Mississippi	New York	North Carolina	Ohio	Texas	Virginia	Washington
1st Quintile[b/]	$8.60	$17.30	$ .09	$ 9.97	$ .12	$ 3.13	$ 1.18	$ .37	$3.85	$7.15	$35.40	$51.28
2nd Quintile	7.44	13.50	14.82	4.68	.87	4.41	1.42	.55	1.67	13.08	21.94	7.88
3rd Quintile	21.66	12.80	3.34	9.80	2.32	.67	6.08	3.63	7.38	10.27	11.22	5.23
4th Quintile	9.94	30.28	7.52	19.30	2.55	6.42	6.51	14.65	2.47	18.70	15.57	1.65
5th Quintile	45.29	66.61	86.90	15.98	1.29	13.46	4.45	9.67	6.79	20.78	13.46	2.04
State Average	15.95	28.08	16.66	11.54	1.59	5.28	4.66	5.53	4.20	12.23	35.37	12.05

Districts Over 5% of State ADM

L. A. Unit	Jefferson County	Shawnee	Boston	Detroit	Jackson Munic. Separate	N.Y.C.	Mecklenburg Co.-Charlotte	Clev.	Dallas	Fairfax County	Seattle
5.55	7.89	8.07	6.28	2.57	0	6.02	0	.92	2.70	129.33	9.00

Denver	Wichita
27.13	29.19

Colo. Springs	Kansas City
104.48	4.57

Houston	Norfolk City
0	73.31

The Failure to Match Educational Resources to Educational Needs

We have already discussed the arbitrary differences from district to district in the revenues available for education. But there is another aspect to school finance systems that requires elaboration: their failure to focus on pupils (and districts) with higher than average needs for costly educational services. Indeed, in regard to certain types of high need districts finance systems may run counter to accepted goals of American public education. For if one of the major purposes of education in America is to provide a vehicle for social mobility -- an opportunity for individuals to compensate for educational disadvantages associated with family background -- educational services should be distributed in inverse proportion to family wealth and social advantage. Yet present systems of school finance virtually assure that the rich will get richer in terms of the educational benefits they receive.

Large City Education Problems

The problem is most acute in two kinds of districts: impoverished rural areas and large central-city school systems. The former suffer from the effects of low population density and low property valuation, and the latter, particularly in the Northeast and Midwest, from high population density and heavy public service demands on deteriorating tax bases. Frequently, of course, particular suburban districts share these characteristics, and when they do, our description of urban or rural problems applies to them as well.

The roots of the urban school finance problem lie in the redistribution of population and economic activity that has taken place in the last two decades. The numbers of poor, undereducated, aged, and nonwhite have been increasing in large central cities and some older suburbs while at the same time they are losing commerce, industry, and middle and upper income families. The problem is further compounded by the greater demands for public services that are placed against the large cities' tax base. Police, fire, refuse, sewers, health and hospital services all require proportionally larger expenditures in the largest cities than elsewhere in the nation.[1/] In addition cities may be required to provide other services that further reduce available resources.

The higher cost of the large city's educational task is another pressing problem. Pupils who come from educationally disadvantaged backgrounds, who are impoverished, physically handicapped, nonwhite, or foreign born, require more than average educational services if they are to have their special needs recognized.[2/] Central cities tend to have far higher numbers of such students than the general population, incurring a need for greater than average expenditures for core-city pupils.[3/]

1/ John J. Callahan, William H. Wilken, and M. Tracy Sillerman, Urban Schools and School Finance Reform: Promise and Reality (Washington: National Urban Coalition, 1974) Table a-4, p. 29.

2/ The Urban Education Task Force Report, Final Report of the Task Force on Urban Education to the Department of HEW, Wilson C. Riles, chairman (New York: Praeger, 1969), pp. 53-54. National Educational Finance Project, Planning to Finance Education, Johns-Alexander-Jordan, editors, 1971, chapter 2.

3/ John J. Callahan, William H. Wilken, M. Tracy Sillerman, Urban Schools and School Finance Reform, Table a-10, p. 35

Similarly, large cities have higher expenses because of urban cost differentials for items such as land acquisition, insurance payments, personnel, expenses for maintenance, and secretarial and security services. Even more important are teachers' salaries, by far the largest cost item in school budgets. Often tightly organized and militant teacher's unions combine with the tendency toward greater seniority in teaching staffs to increase costs per teacher in large cities. In short, large central city school systems, particularly in the East and Midwest, must face high educational costs with revenues not easily channeled into education.

The Relationship Between Poverty and State-Local Revenues

Determining the relationship between fiscal allocations and educational needs is a hazardous undertaking. Needs are difficult to define and, for most purposes, cannot be matched directly with resource allocations. However, some rough indicators or proxies are available, and in this section of the paper we shall attempt to depict the mismatch between requirements for higher than average educational services and available levels of revenue from state and Federal sources.

We begin with one of the more widely accepted proxies for learning disabilities, the number of children in a community who come from impoverished homes. To examine the amounts of revenue going to districts with high proportions of such pupils, we have constructed a new set of quintiles based on equal numbers of children from impoverished homes. The results are surprisingly constant from state to state. In ten of the twelve states, the districts with the highest proportions of children

TABLE VIII
(Continued)

Percentage with Poverty Income	Local Revenue	State Revenue	State and Local Revenue [c]
New York			
1.48 - 3.30	798	596	1394
3.32 - 4.32	620	653	1273
4.38 - 7.27	672	632	1304
7.31 - 11.91	492	683	1175
11.98 - 17.46	440	680	1120
New York City (20.43)	713	509	1222
North Carolina			
7.69 - 13.39	192	379	571
13.61 - 18.25	180	381	561
18.97 - 25.10	157	390	547
25.62 - 35.80	126	393	519
37.19 - 54.95	102	416	518
Mecklenburg (15.28)	301	371	671
Ohio			
1.55 - 3.50	645	203	848
3.60 - 5.68	525	228	753
5.79 - 8.92	475	234	709
8.95 - 13.98	573	204	777
14.27 - 33.21	517	218	735
Cleveland (21.39)	815	189	1004
Texas			
1.84 - 10.68	354	254	608
10.73 - 16.84	315	258	573
16.98 - 24.15	254	289	543
24.29 - 32.43	249	285	534
32.47 - 62.75	211	293	504
Dallas (18.21)	407	187	594
Houston (18.67)	341	225	566
Virginia			
5.73 - 10.73	432	225	657
10.92 - 15.59	363	235	598
15.79 - 22.70	383	249	632
23.21 - 31.82	416	237	653
32.05 - 51.47	262	290	552
Fairfax County (4.77)	552	220	772
Norfolk City (26.92)	372	218	590
Washington [b]			
1.61 - 5.03	467	509	1006
5.16 - 6.54	327	526	879
6.71 - 9.32	354	457	843
9.38 - 10.92	306	485	815
11.27 - 49.82	265	472	764
Seattle (9.05)	596	360	987

[a] Data is for 1969-70 school year and pupil counts are Average Daily Membership.

[b] State and local revenue does not add up to total revenue because revenues raised from intermediate sources (e.g., county taxes) are included in the total.

[c] Totals are derived from non-rounded numbers therefore, state and local may not add to total because of rounding.

TABLE VIII

STATE AND LOCAL REVENUES PER PUPIL[a]/
(Grouped by Percentage of Children in Poverty)

Percentage with Poverty Income	Local Revenue	State Revenue	State and Local Revenue[c]/
California[b]/			
2.26 - 6.48	486	337	825
6.55 - 9.88	471	341	847
10.07 - 12.89	522	316	845
13.08 - 15.71	520	294	819
15.86 - 28.92	553	335	891
Los Angeles Unified (15.83)	636	286	925
Colorado[b]/			
3.14 - 4.64	533	225	807
5.19 - 8.51	461	235	772
8.82 - 12.52	490	216	753
12.54 - 15.10	372	238	667
15.33 - 31.78	369	257	685
Jefferson County (5.12)	541	217	758
Colorado Springs (11.98)	464	224	738
Denver (15.48)	719	141	860
Kansas[b]/			
3.92 - 6.94	434	279	830
7.07 - 9.12	379	253	728
9.16 - 11.74	428	257	835
11.81 - 15.42	517	276	913
15.56 - 30.94	416	258	833
Shawnee (2.45)	393	202	658
Wichita (11.72)	447	293	820
Kansas City (17.15)	390	207	660
Massachusetts			
1.22 - 3.46	868	183	1051
3.55 - 5.40	796	186	982
5.45 - 7.08	718	200	918
7.19 - 10.31	665	193	858
10.45 - 17.51	606	189	795
Boston (19.54)	679	262	941
Michigan[b]/			
1.69 - 3.67	644	350	998
3.69 - 5.22	504	406	912
5.26 - 7.72	422	397	819
7.78 - 10.19	446	388	838
10.26 - 28.79	507	404	919
Detroit (18.23)	427	375	805
Mississippi			
13.94 - 30.02	160	269	429
30.31 - 37.12	126	281	407
37.49 - 45.44	133	282	415
46.74 - 55.72	108	296	404
58.12 - 79.12	115	289	404
Jackson Municipal Separate (29.15)	299	246	545

Continued . . . . . .

from impoverished families receive fewer state and local revenues than do the districts with the least impoverished children, and in the eleventh state, Kansas, the state and local revenues are virtually equal in the high and low quintiles. Only in California do districts with high proportions of poor children get appreciably higher funding, and even there the compensatory quality of the funding is less than ten percent. It should be emphasized that these statistics indicate only district averages not actual amounts spent on impoverished pupils. They do demonstrate that districts with the highest proportions of poor children have less available revenues per pupil from state and local sources than districts with the fewest poor children.

Federal Aid in Relation to Poverty

Although local revenues and state aid are insensitive to the higher revenue needs of districts with high proportions of children in poverty, federal funds tend to be highly compensatory. While distributions of Title I ESEA funds would be expected to show this tendency, our data shows that total federal aid to school districts flows in patterns consistently and positively related to increasing proportions of poverty pupils. We realize that Title I might be the controlling factor in this relationship since it constitutes a large percentage of Federal aid to local school districts. Because federal aid constitutes approximately 7 percent of total expenditures for education, federal aid is the small component of the local, state, federal school finance system. It tends to be overpowered in its effects by the opposite workings of state/local revenues. However, in two states, Mississippi and North Carolina,

TABLE IX

TOTAL REVENUE PER PUPIL[a/]

(Grouped by Percentage of Related Children in Poverty)

Percentage with Poverty Income	State and Local Revenue	Revenue From Federal Sources	Total Revenue[c/] From All Sources
California[b/]			
2.26 - 6.48	825	24	849
6.55 - 9.88	847	26	873
10.04 - 12.89	845	69	914
13.08 - 15.71	819	64	883
15.86 - 28.92	891	89	980
Los Angeles Unified (15.83)	925	51	976
Colorado[b/]			
3.14 - 4.64	807	66	873
5.19 - 8.51	772	55	827
8.82 - 12.52	753	46	799
12.54 - 15.10	667	61	728
15.33 - 31.78	685	82	767
Jefferson County (5.12)	758	23	781
Colorado Springs (11.98)	738	132	870
Denver (15.48)	860	78	938
Kansas[b/]			
3.92 - 6.94	830	52	882
7.07 - 9.12	728	53	781
9.16 - 11.74	835	38	873
11.81 - 15.42	913	62	975
15.56 - 30.94	833	79	912
Shawnee (2.45)	658	23	681
Wichita (11.72)	820	67	887
Kansas City (17.15)	660	110	770
Massachusetts			
1.22 - 3.46	1051	18	1069
3.55 - 5.40	982	28	1010
5.45 - 7.08	918	37	955
7.19 - 10.31	858	36	894
10.45 - 17.51	795	70	865
Boston (19.54)	941	67	1008
Michigan[b/]			
1.69 - 3.67	998	15	1013
3.69 - 5.22	912	19	931
5.26 - 7.72	819	19	838
7.78 - 10.19	838	33	871
10.26 - 28.79	919	51	970
Detroit (18.23)	805	89	894
Mississippi			
13.94 - 30.02	429	89	518
30.31 - 37.12	407	77	484
37.49 - 45.44	415	78	493
46.74 - 55.72	404	113	517
48.12 - 79.12	404	180	584
Jackson Municipal Separate (29.15)	545	40	585

Continued . . . .

TABLE IX
(continued)

Percentage with Poverty Income	State and Local Revenue	Revenue From Federal Sources	Total Revenue[c] From All Sources
New York			
1.48 - 3.30	1394	12	1406
3.32 - 4.32	1273	12	1285
4.38 - 7.27	1304	26	1330
7.31 - 11.91	1175	36	1211
11.98 - 17.46	1120	77	1197
New York City (20.43)	1222	98	1320
North Carolina			
7.69 - 13.39	571	43	614
13.61 - 18.25	561	52	613
18.97 - 25.10	547	84	631
25.62 - 35.80	519	100	619
37.19 - 54.95	518	131	649
Mecklenburg County (15.28)	672	41	713
Ohio			
1.55 - 3.50	848	23	871
3.60 - 5.68	753	22	775
5.79 - 8.92	709	27	736
8.95 - 13.98	777	57	834
14.27 - 33.21	735	72	807
Cleveland (21.39)	1004	88	1092
Texas			
1.84 - 10.68	608	31	639
10.73 - 16.84	573	54	627
16.98 - 24.15	543	60	603
24.29 - 32.43	534	76	610
32.47 - 62.75	504	113	617
Dallas (18.21)	594	33	627
Houston (18.67)	566	30	596
Virginia			
5.73 10.73	657	61	718
10.92 - 15.59	598	71	669
15.79 - 22.70	632	68	700
23.21 - 31.82	653	84	737
32.05 - 51.47	552	98	650
Fairfax County (4.77)	772	148	920
Norfolk City (26.92)	590	155	745
Washington[b]			
1.61 - 5.03	1006	24	1030
5.16 - 6.54	879	70	949
6.71 - 9.32	843	41	884
9.38 - 10.92	815	69	884
11.27 - 49.82	764	119	883
Seattle (9.05)	987	52	1039

[a] Data is for 1969-70 school year and per pupil counts are Average Daily Membership. (ADM)

[b] State and local revenue includes revenues raised from intermediate sources (e.g., county taxes).

[c] Totals are derived from non-rounded numbers therefore, state and local plus Federal may not add to total because of rounding.

federal assistance is sufficient to give the poorest districts equal footing with the richest. These two states, it should be noted, are among the highest in the nation in amounts and proportions of Federal aid per pupil.

Differences in Revenues, Tax Resources, and Effort Among States

This paper has focused so far on school finance problems within states. Disparities in resources and mismatches between resources and needs also exist among the states, but as we shall discuss below, the techniques for understanding the relationships are less developed. This section will begin by describing and analyzing the interstate range of disparities and will then turn to an analysis of some of the most obvious reasons for those differences -- the variations in the capacity to support public services and in the effort expended in raising educational funds.[1/] Finally, an attempt is made to demonstrate the shifting in the pattern of disparities among states if revenues are adjusted for cost and effort.

Interstate Disparities in Education: Expenditures, Salaries and Pupil/Teacher Ratios

Table X shows a variation in revenue among the states of 2.7 to 1, from New York with $1,796 per pupil to Alabama at $653. Above the national average are a number of large, urbanized, and highly industrialized states; at the bottom of the spending scale are the South and some rural states of the Southwest and West.

1/ For another analysis see: Anthony P. Carnevale, "Problems in Allocating Federal Aid to High-Need Areas," Education and Urban Society, V, No. 1 (1972), 39-69.

Teacher salaries for these states range from $14,214 in Alaska to $6,530 in Mississippi, for a ratio of 2 to 1. Two general trends appear among the states at the top and the bottom of the revenue range. Of the fifteen states above the national average in revenues all but two are above the national average in teacher salaries. At the bottom of the range the reverse is true; all states are well below the average teacher salaries, and while the top group averages $10,650 annually, the bottom fifteen states average only $7,750. In fact, the correlation between teacher salaries and revenue receipts is .86. It is difficult to establish the degree to which such contrasts in salary reflect differences in the quality of teachers rather than variations in cost alone. However, if these differences do represent some differences in quality it is the higher spending states that appear to have higher quality instruction.

Pupil/teacher ratios offer an imperfect but direct measure of the quality of the school program. While there is considerable doubt that marginal differences in pupil/teacher ratios are a valid measure of differences in school program, they do provide a non-dollar indicator and a proxy for a number of other school quality factors. The range in pupil/teacher ratios shows less regularity than does the range in teacher salaries and school revenues. The correlation between revenue receipts and pupil/teacher ratios is only -.36. While states ranking in the top ten in revenues rank from 1 to 30 in pupil/teacher ratios, it appears clear that in the lowest spending states, there is a clustering of higher pupil/teacher ratios (more pupils per teacher). Thus, at least among the poorer states, pupils appear to be receiving a poorer education to the extent that the availability of teachers is a measure of school quality.

TABLE X

INTERSTATE DISPARITIES IN EDUCATION:
EXPENDITURES, SALARIES AND PUPIL-TEACHER RATIOS

State	Revenue Receipts Per Pupil in ADA 1971-72[a]	Rank	Average Teacher Salaries 71-72	Rank	Pupil Teacher Ratio in all Schools	Rank
New York	$1,796	1	$11,830	2	19.6	6
Alaska	1,776	2	14,124	1	20.9	11
New Jersey	1,452	3	10,725	5	20.5	10
Maryland	1,415	4	10,463	7	22.5	28
Connecticut	1,398	5	10,295	10	21.1	15
Delaware	1,336	6	10,420	8	22.0	23
Hawaii	1,310	7	10,320	9	22.6	30
Vermont	1,306	8	8,462	33	17.9	1
Minnesota	1,301	9	10,219	11	21.0	13
Illinois	1,291	10	10,624	6	21.1	15
Pennsylvania	1,274	11	9,903	18	22.1	24
California	1,262	12	11,417	4	24.0	40
Wisconsin	1,189	13	10,016	15	19.7	7
Oregon	1,182	14	9,485	20	22.2	25
Michigan	1,176	15	11,620	3	23.4	36
UNITED STATES	1,140		9,705		22.3	
Washington	1,125	16	10,175	14	24.5	46
Wyoming	1,125	16	9,234	22	19.0	2
Rhode Island	1,111	18	9,910	17	20.9	11
Indiana	1,109	19	9,755	19	24.4	44
Nevada	1,109	19	10,200	12	25.7	49
Iowa	1,094	21	9,207	23	20.2	9
Arizona	1,089	22	9,915	16	23.4	36
Colorado	1,077	23	9,264	21	23.3	35
Kansas	1,075	24	8,251	37	19.8	8
Massachusetts	1,074	25	10,176	13	21.2	17
Missouri	1,045	26	8,688	28	21.5	19
Virginia	1,011	27	9,084	24	22.5	28

TABLE X (Continued)

State	Revenue Receipts Per Pupil in ADA 1971-72 a/	Rank	Average Teacher Salaries 71-72	Rank	Pupil Teacher Ratio in all Schools	Rank
Florida	999	28	$ 8,935	25	22.9	32
Louisiana	993	29	8,767	27	23.1	33
Montana	977	30	8,514	31	21.0	13
Ohio	977	30	8,772	26	23.2	34
North Dakota	954	32	7,587	45	19.2	5
New Hampshire	952	33	8,453	36	21.3	18
North Carolina	932	34	8,593	29	24.1	41
Texas	926	35	8,472	32	21.9	20
South Dakota	908	36	7,678	43	19.1	3
Maine	902	37	8,545	30	21.9	20
New Mexico	883	38	8,238	38	24.2	43
South Carolina	874	39	7,355	48	22.3	27
Utah	865	40	8,460	34	26.8	50
West Virginia	851	41	8,103	39	24.1	41
Idaho	841	42	7,392	46	22.7	31
Kentucky	797	43	7,362	47	23.8	39
Tennessee	786	44	7,990	40	25.4	48
Nebraska	784	45	8,454	35	19.1	3
Mississippi	774	46	6,530	50	23.7	38
Oklahoma	771	47	7,647	44	22.2	25
Georgia	753	48	7,926	41	25.0	47
Arkansas	699	49	6,843	49	21.9	20
Alabama	653	50	7,737	42	24.4	44

a/ Includes all receipts available for expenditures for current expenses, capital outlay and debt service for public schools. Amounts which increase the school indebtedness or which represent exchange of school property for money are excluded.

Source: NEA, Rankings of the States, 1973 (Washington, D. C.: NEA, 1973), pp.23, 24, 48.

Interstate Disparities in Education: Capacity and Tax Effort

There are also differences in state capacity to support education. Table XI permits an examination of such variations in capacity as expressed by per capita personal income. It demonstrates that a range of 1.8 to 1 exists between New York, with $5,000 per capita, and Mississippi, with $2,788. The importance of differences in the financial ability to support education is suggested by the close relationship between income levels and actual spending levels. The correlation between income and revenue receipts is .83. Of the ten states highest in capacity, seven are in the top ten in revenues as well. Conversely, at the bottom of the range, six of the lowest ten states in educational revenues are also in the bottom ten in fiscal ability.

Tax effort for education, however, does not show similar consistency. The states that are highest in income (capacity) are not among the states that are highest in their tax effort for education, but neither are they among the lowest. And at the low end of the range, the pattern is even more varied. Louisiana which ranks 46th in capacity ranks 16th in effort, while Mississippi, the poorest state, ranks 40th in effort. In short, there does not appear to be the inverse correlation between effort and capacity that is the hallmark of many state school finance systems. And even when we examine effort for all public functions, we will again find a relatively random pattern.

TABLE XI

INTERSTATE DISPARITIES IN CAPACITY AND TAX EFFORT

State	Per Capita Personal Income 1971[a]	Rank	Effort for Education 1971[b]	Rank	Effort for all Functions[c]	Rank
New York	$ 5,000	1	5.8	10	16.4	7
Connecticut	4,995	2	5.5	16	12.4	40
Alaska	4,875	3	7.7	1	21.6	1
Nevada	4,822	4	5.0	29	16.1	10
New Jersey	4,811	5	5.3	25	12.3	42
Illinois	4,775	6	4.8	32	12.6	36
Hawaii	4,738	7	5.4	22	16.4	7
Delaware	4,673	8	5.9	7	14.6	21
California	4,640	9	5.5	16	15.9	12
Massachusetts	4,562	10	4.4	40	13.7	28
Maryland	4,522	11	6.1	5	13.8	27
Michigan	4,430	12	5.8	10	14.0	25
Kansas	4,192	13	4.8	32	12.8	33
Ohio	4,175	14	4.6	39	11.5	49
UNITED STATES	4,156		5.2		13.9	
Colorado	4,153	15	5.5	16	14.1	24
Pennsylvania	4,147	16	5.3	25	12.6	36
Washington	4,132	17	5.4	22	15.7	14
Rhode Island	4,126	18	4.4	40	13.1	29
Minnesota	4,032	19	7.0	3	16.1	10
Nebraska	4,030	20	3.8	49	14.3	22
Indiana	4,027	21	5.5	16	12.9	32
Oregon	3,959	22	5.8	10	14.0	26
Missouri	3,940	23	4.8	32	11.5	49
Florida	3,930	24	4.3	43	12.6	36
Wyoming	3,929	25	6.2	4	18.1	2
Arizona	3,913	26	5.8	10	14.9	16

Continued.....

TABLE XI (continued)

State	Per Capita Personal Income 1971 [a]	Rank	Effort for Education 1971 [b]	Rank	Effort for all Functions [c]	Rank
Wisconsin	$ 3,912	27	5.9	7	16.7	3
Virginia	3,899	28	4.9	31	12.0	47
Iowa	3,877	29	5.9	7	14.9	16
New Hampshire	3,796	30	4.8	32	12.3	42
Texas	3,726	31	4.8	32	12.2	45
Vermont	3,638	32	7.7	1	16.5	5
Montana	3,629	33	5.7	14	14.7	19
Georgia	3,599	34	3.9	48	12.7	35
North Dakota	3,538	35	5.2	27	16.5	5
Oklahoma	3,515	36	4.3	43	13.0	31
Utah	3,442	37	6.0	6	14.7	19
South Dakota	3,441	38	5.4	22	16.4	7
North Carolina	3,424	39	4.8	32	12.4	40
Idaho	3,409	40	5.1	28	14.9	16
Maine	3,375	41	5.5	16	14.2	23
Kentucky	3,306	42	4.1	46	12.8	33
Tennessee	3,300	43	4.3	43	12.1	46
New Mexico	3,298	44	5.7	14	16.6	4
West Virginia	3,275	45	4.8	32	12.6	36
Louisiana	3,252	46	5.5	16	15.9	12
South Carolina	3,142	47	5.0	29	12.3	42
Alabama	3,087	48	3.7	50	13.1	29
Arkansas	3,078	49	4.0	47	11.7	48
Mississippi	2,788	50	4.4	40	15.5	15

[a] Current income received by residents from all sources including transfers from government and business but excluding transfers among persons. It is a before tax measure.

[b] Revenue receipts for education 71-72 of state and local governments from own sources as percent of personal income, 1971.

[c] General revenue of state and local government from own sources 1970-71 as percent of personal income 1971.

Source: NEA, Rankings of the States 1973 (Washington, D.C. : NEA, 1973.

Interstate Disparities in Education:
Adjustments for Costs and Effort

In preparing this section we were handicapped by the lack of information concerning the real versus the apparent disparities among the states. Revenue levels are only very rough approximations of differences in the quality of the school program children receive. One limitation on the usefulness of average revenues as an indicator of quality is the problem of differing cost levels from one state to another. A dollar may buy more education in Alabama than it does in New York, but at present no accepted cost-of-living or cost-of-education indices are available by state. The only cost index available is the consumer price index which measures changes in cost over time. This index is not available by state, and it does not consider crosssectional differences. Many researchers have suggested the development of a new index based on wages in similar employments. However, a state-by-state cost index would also be inadequate since cost differentials within states might be as varied as those between states. Thus, in order to accurately assess differences in educational quality, an adequate cost index based on research addressed to establishing the appropriate (1) geographical area for cost determinations, and (2) the appropriate measure of cost across space would have to be developed.

In order to illustrate the possible effect of a cost index we have adjusted the revenue receipts for education in each state by an illustrative index made up of the average teacher salary in that state. We are well aware that the use of teachers' salaries as a cost adjuster is problematic since differences in teacher renumeration are reflective

of differences in quality as well as cost. While there are severe limitations to this approach, we believe it useful to illustrate that a cost index may have significant implications for federal decision making.

Column II of Table XII shows revenue receipts adjusted by teacher salary cost as a percent of the U.S. average. This column can be compared to Column I which shows unadjusted revenue receipts as a percent of the U.S. average. The disparity among states is significantly greater in Column I than in Column II. When revenue receipts were unadjusted, the high spending state, New York, spent 58 percent more than the U.S. average and the low spending state, Alabama, spent only 57 percent of the U.S. average for a ratio of 2.77 to 1. In Column II, where receipts are adjusted for cost, the high spending state, New York, spent 30 percent more than the U.S. average and the low spending state, Alabama, spent 73 percent of the average for a ratio of 1.64 to 1.

To permit a more accurate measure of the true disparities between states, state expenditures should also be viewed in light of the differences in tax effort. Therefore, revenue receipts adjusted by salary costs were divided by tax effort to yield Column III. To illustrate, the adjusted receipts in New York were $1,489 per pupil. This figure was divided by New York's effort (state and local revenues for education divided by personal income) of 5/8 percent to arrive at an expenditure per unit of effort. The receipts per unit of effort were than compared to the U.S. average receipts per unit of effort. Column III thus shows these adjusted figures as a percent of the U.S. average. Revenue receipts per unit of effort in New York are 16 percent greater than the

average, whereas in Column I the unadjusted receipts were 58 percent greater than the U. S. average. Thus, when effort and cost are taken into consideration, New York is not nearly as much out of line as it first appeared.

This type of adjustment provides some other interesting results. Alaska, which is the second ranking state in revenue receipts per pupil, receives only 66 percent of the U. S. average when effort and cost are considered. However, its revenue receipts are 56 percent greater than the average receipts. Kansas, which raises 19 percent less than the average in unadjusted revenue, raises 19 percent more than the average when cost and effort are considered.

We realize that these measures are crude and that no policy decisions could be based on these particular adjustments. However, they do demonstrate that the distribution of Federal funds might be significantly altered if cost and effort adjustments were considered in the formulation of policy. If only unadjusted revenue receipts were considered, many would argue that states such as Alaska which have greater than average revenue should receive little Federal money. As the analysis shows, however, Alaska may in fact have the greatest need.

Limitations in Making Interstate Comparisons

We cannot close this section without reemphasizing the technical difficulties in making an accurate comparison of the disparities among the states. Averages do not indicate the range in disparities within a state. Two states with the same average revenues may have markedly different distributions of these revenues. Chart I shows the distribution

TABLE XII

REVENUE RECEIPTS AND ADJUSTED REVENUE RECEIPTS
AS PERCENTAGE OF U. S. AVERAGE

State	Revenue Receipts As Percent of US Average	Revenue Receipts Adjusted for cost as % of US Average	Revenue Receipts (Adjust for cost and effort) as percent of US average
New York	1.58	$ 1.29	$ 1.16
Alaska	1.56	1.07	.72
New Jersey	1.27	1.15	1.13
Maryland	1.24	1.15	.98
Connecticut	1.23	1.16	1.09
Delaware	1.17	1.10	.97
Hawaii	1.15	1.08	1.04
Vermont	1.15	1.32	.89
Minnesota	1.14	1.09	.81
Illinois	1.13	1.04	1.13
Pennsylvania	1.12	1.10	1.07
California	1.11	.94	.89
Wisconsin	1.04	1.01	.89
Oregon	1.04	1.06	.95
Michigan	1.03	.86	.77
UNITED STATES	1.00	1.00	1.00
Washington	.99	.94	.91
Wyoming	.99	1.04	.87
Rhode Island	.97	.96	1.13
Indiana	.97	.96	.91
Nevada	.97	.93	.96
Iowa	.96	1.01	.89
Arizona	.96	.94	.84
Colorado	.94	.99	.94
Kansas	.94	1.11	1.18
Massachusetts	.94	.90	1.06
Missouri	.92	1.02	1.10
Virginia	.89	.94	1.00

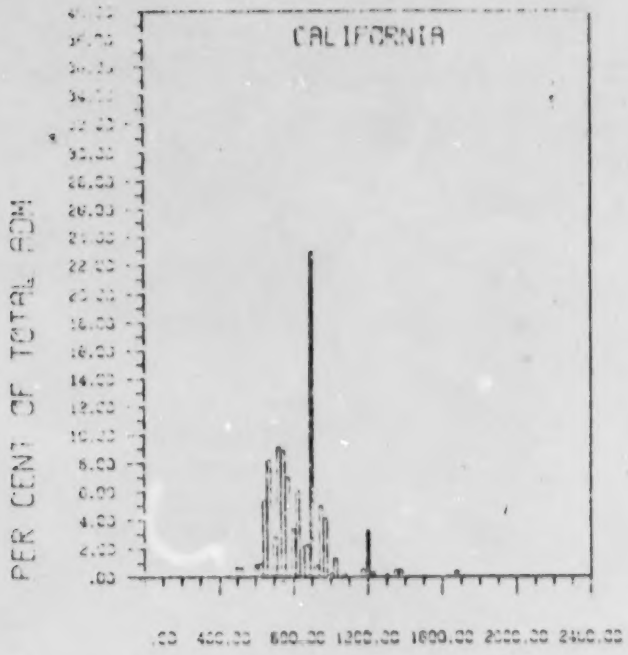
Continued.....

TABLE XII (continued)

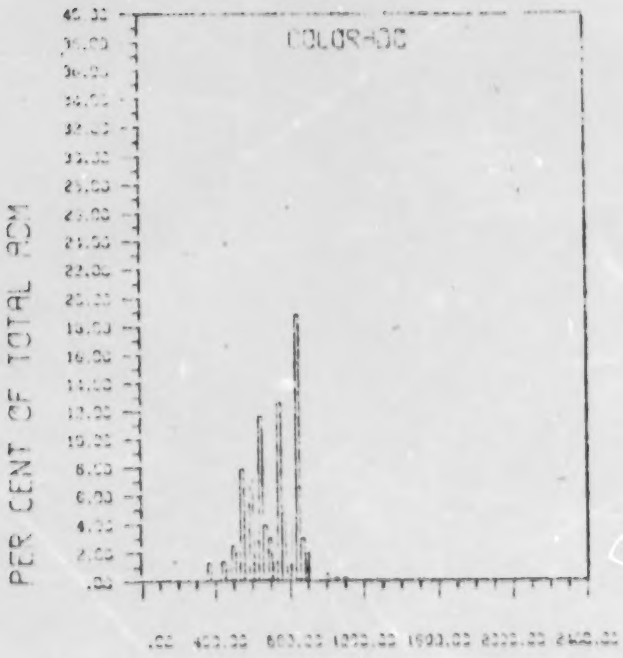
State	Revenue Receipts As Percent of US Average	Revenue Receipts Adjusted for cost as % of US Average	Revenue Receipts (Adj for cost and effort) a percent of US average
Florida	.88	$ .95	1.15
Louisiana	.87	.97	.92
Montana	.86	.99	.89
Ohio	.86	.95	1.08
North Dakota	.84	1.07	1.07
New Hampshire	.84	.96	1.04
North Carolina	.82	.92	1.00
Texas	.81	.93	1.01
South Dakota	.80	1.01	.97
Maine	.79	.90	.85
New Mexico	.77	.91	.83
South Carolina	.77	1.01	1.05
Utah	.76	.87	.76
West Virginia	.75	.90	.97
Idaho	.74	.97	.99
Kentucky	.70	.92	1.17
Tennessee	.69	.84	1.02
Nebrasks	.69	.79	1.08
Mississippi	.68	1.01	1.20
Oklahoma	.68	.86	1.04
Georgia	.66	.81	1.07
Arkansas	.62	.86	1.12
Alabama	.57	.72	1.01

of local and state revenues for California and Colorado in 1969-70. California had average state and local revenues of $854 while Colorado had an average of $860. However, the range in California is from $1700 to $500 whereas in Colorado it is from $1125 to $350. In California about 40 percent of the pupils were in districts spending more than $900 from state and local revenues, whereas in Colorado only 3 percent of the pupils were in districts spending that amount or more. In California 58 percent of the pupils were in districts spending $800 or more whereas in Colorado only 32 percent were in such districts. Thus, with similar averages, states accord substantially different degrees of equality in educational offerings.

We have already discussed the absence of realistic cost indices to permit accurate comparison among states. An even more challenging problem in interstate analyses is the noncomparability of data across states. Expenditure categories may include substantially different components. For all these reasons, we present this study of interstate disparities with substantial caveats.



STATE & LOCAL REVENUE PER ADM($)



STATE & LOCAL REVENUE PER ADM($)

SUMMARY

Large numbers of American school children receive an inferior education because of the inequitable and inefficient manner in which educational revenues are raised and distributed. Wide variations in per pupil expenditures exist among school districts in most states, primarily because of the unequal distribution of taxable resources. Although the regressivity and incidence of the property tax have been the subject of intense debate among economists and tax experts, one crucial fact remains undisputed: school districts with higher property value generate more revenue with a lower tax rate than districts with low property valuation.

Almost every state allocates state aid to local school districts in a manner nominally intended to compensate for unequal local resources. Yet with only a few exceptions, equalization fails to compensate for the disadvantages of school districts with low tax bases.

School finance systems also fail to focus on the special educational and fiscal needs associated with high cost pupils, i.e., the bilingual, low income, and handicapped. This problem is most serious in impoverished rural districts and in large central city school systems. In the majority of states, those districts with the highest percentage of poor children receive fewer state and local revenues proportionately than do districts with the fewest impoverished children. While Federal aid provides no equalization of tax base disparities, it does flow in patterns consistently and positively related to increasing proportions of poverty pupils.

Substantial disparities exist among states as well as within them. States with the highest per pupil expenditures tend to be large, urbanized, and highly industrialized. Many of those with the lowest spending levels are either Southern or the rural states of the Southwest and West. When adjustments are made for cost and effort levels, there are substantial changes in the relative position of the state; however, it is difficult to gauge how substantial these disparities really are because state per pupil averages are poor indicators, data is non-comparable among states, and accurate cost adjustors are unavailable.

CHAPTER II

FEDERAL AID IN SCHOOL FINANCE

Ours is a federal system of government, and in education as in all other domestic functions, the provision and regulation of public services has become a shared responsibility of Federal and state governments. In education, however, the distribution of authority is "bottom heavy," in the inelegant but perceptive phrase of Stephen Bailey. The predominant influence rests with state and local authorities.

While the system of American educational policymaking may place most power at lower jurisdictional levels, the influence of the national government has been extensive. One way in which such national authority and influence affects public education is through programs of Federal aid to education. Such programs provide a relatively small but strategically important element of the financial support of American public schools. Although such aid has grown in importance in recent years, it has long been a feature of educational federalism.

Purposes and History

The Federal government has been a partner in the support of American public education since the early years of the nation's history. Legislation providing the first national aid to education -- the provision of land for the building of schools or for the support of education -- was passed in 1785 by the Continental Congress. In the intervening years, hundreds of Federal laws have dealt with education, and the shape and pattern of the Federal role has grown and changed. But two features have

remained characteristic: (1) Federal education programs have been designed to supplement state and local efforts in order to serve particular national purposes as perceived by Congress and the executive branch, and (2) Federal aid has provided an extremely small share of the total support for education.

What is the justification for Federal involvement in what is traditionally local and state concern? First, there are some problems that, while nationally induced, affect only a relatively small number of school districts. A number of Federal programs, such as P.L. 874 (Impact Aid) are designed to relieve individual states and school districts of these educational costs. Second, some national goals may not be perceived by all states and school districts. Here, the perspective of the federal executive and legislative branches is useful in focusing Federal resources. Notable in this area has been the goal of equality of educational opportunity through Headstart, the Elementary and Secondary Education Act (ESEA), the Elementary School Assistance Act (ESAA), and the Elementary School Assistance Program (ESAP). Third, requirements such as educational research, may benefit the states and school districts of the entire country, but be beyond the resources of individual school districts or even the states. Ultimately, however, the basic reason for current Federal aid is that the day has passed when schools, like police, can be neatly labeled "local". Education has a great variety of economic and social spill-ins and spill-outs, and the costs or benefits of well or poorly educated individuals are not restricted to the locality where they receive their schooling. Americans move several times in their lives and wherever they live, they participate in the national

economy and the democratic process, so that citizen education is a basic national resource.

For all these reasons, programs of Federal support for education have been adopted. Some are designed to achieve their purpose through heavy reliance upon Federal funds; others use relatively small amounts of Federal money as levers to alter or influence state and local policy.

The modern form of Federal aid, categorical programs of grants-in-aid, has a tradition stretching back more than fifty years to the Smith-Hughes Vocational Education Act of 1917. During the Depression the Federal government initiated programs to furnish inexpensive milk and school lunches. The Second World War and the Korean conflict brought aid to school districts called upon to educate the influx of children whose parents were attached to military bases and other Federal facilities (Impact Aid). In the 1950's, Federal assistance grew significantly through the National Defense Education Act (NDEA), which was aimed at upgrading programs in science, mathematics, foreign languages, and other critical areas. Then in 1965 Congress passed the Elementary and Secondary Education Act (ESEA), which had two ambitious and challenging educational goals: (1) the achievement of equality of educational opportunity by providing funds for educating children from low-income families, and (2) the improvement of the quality of all education by supporting experimentation and innovation. A later amendment to this act was the Bilingual Education Act which recognized the special education needs of children with limited English-speaking ability. In 1970, Congress enacted the Emergency School Assistance Act (ESAA)

designed in part to help school districts meet the problems associated with desegregation.[1/]

Throughout its history, Federal aid has served a variety of educational and financial purposes,[2/] and its growth in recent years has been both significant and erratic. From 1961-1974, aid has grown more than five-fold, from just under $760 million to over $4.2 billion. Between 1957 and 1964 Federal education funds had almost doubled. Table XIII shows that they more than doubled again in one year (1965-66) as a result of the passage of ESEA. During the last six years, however, this growth has slowed and after allowance for inflation, has actually declined in real terms. Furthermore, the percentage of total educational revenues rose consistently over a decade to a high of 8.8 percent in 1967-68, but has since slipped to 7.5 percent in 1973-74. (Table XIV)

1/ U.S. Congress, House, Federal Educational Policies, Programs and Proposals: A Survey and Handbook. House Document 398 (Washington: GPO, 1968). Stephen Bailey and Edith Mosner, ESEA: The Office of Education Administers a Law (Syracuse: Syracuse Univ. Press, 1968)

2/ See, for example, the declaration of policy in Public Law 89-10 (the Elementary and Secondary Education Act of 1965):

> Sec. 201. In recognition of the special educational needs of children of low-income families and the impact that concentrations of low-income families have on the ability of local educational agencies to support adequate educational programs, the Congress hereby declares it to be the policy of the United States to provide financial assistance (as set forth in this title) to local educational agencies serving areas with concentrations of children from low-income families to expand and improve their educational programs by various means (including pre-school programs) which contribute particularly to meeting the special educational needs of educationally deprived children.

TABLE XIII

REVENUES FOR PUBLIC ELEMENTARY AND SECONDARY SCHOOLS
(in thousands)

School Year	Total	Federal [a]	State	Local
1961/62 [b]	$17,527,707	$ 760,975	$ 6,789,190	$ 9,977,542
1962/63	18,769,388	681,964	7,379,522	10,707,902
1963/64 [b]	20,544,182	896,956	8,078,014	11,569,213
1964/65	21,962,262	834,202	8,722,937	12,405,123
1965/66 [b]	25,356,858	1,996,954	9,920,219	13,439,686
1966/67	27,256,043	2,162,892	10,661,582	14,431,569
1967/68	31,092,400	2,472,464	12,231,954	16,387,982
1968/69	34,756,006	2,570,704	13,866,782	18,318,520
1969/70	38,192,011	2,767,045	15,627,751	19,797,215
1970/71	43,438,439	3,128,831	17,371,452	22,938,156
1971/72	48,359,909	3,876,706	19,420,538	25,062,665
1972/73	52,397,258	4,129,283	21,318,940	26,949,035
1973/74	56,535,008	4,213,777	24,316,561	28,004,670

a) Estimates of federal revenue may be lower than those published later by the Office of Education because of the partial omission of the money value of food distributed for the school lunch program.

b) Figures obtained from the United States Office of Education.

Source: National Education Association, Research Division. Estimates of School Statistics, 1961-62, 1963-64, 1965-66, 1967-68, 1968-69, 1969-70, 1970-71, 1971-72, 1972-73 (Washington, D.C.: 1961, 1963, 1965, 1966, 1969, 1970, 1971, and 1972.)

TABLE XIV

PERCENTAGES OF REVENUE RECEIVED
FOR PUBLIC ELEMENTARY AND SECONDARY SCHOOLS

School Year	Federal Sources	State Sources	Local Sources
1961/62	4.3%	38.7%	56.9%
1962/63	3.6[a]	39.3[a]	57.1[a]
1963/64	4.4	39.3	56.4
1964/65	3.8[a]	39.7[a]	56.5[a]
1965/66	7.9	39.1	53.0
1966/67	7.9[a]	39.1[a]	53.0[a]
1967/68	8.8	38.5	52.3
1968/69	7.4[a]	40.0[a]	52.6[a]
1969/70	7.2[a]	40.9[a]	51.8[a]
1970/71	7.2[a]	40.0[a]	52.8[a]
1971/72	8.0	40.2	51.8
1972/73	7.8	40.7	51.4
1973/74	7.5	43.0	49.5

a) NEA Research Division estimates.

Source: National Education Association.

Although the percentage of Federal educational support has not been impressive, it has exerted considerable programmatic or financial leverage in national policy. In vocational and agricultural education and, more recently, science and language instruction and the education of the disadvantaged, Federal funds have had a significant impact.

SUMMARY

The Federal government has been a partner in the support of education since the creation of the Republic. Two characteristics of Federal support have remained constant: Federal programs have been designed to supplement local efforts, and Federal assistance has provided a small share of the total support.

There are several strong justifications for Federal involvement in education: nationally induced problems may affect only a small number of areas; national goals may not be perceived by local school districts; some programs are too expensive for individual school districts; and economic and social spill-ins and spill-outs accompany our highly mobile citizenry.

Federal aid to education has served a variety of purposes, and has grown significantly and erratically in recent years. Although the percentage of Federal educational support has not been proportionately impressive, it has exerted considerable leverage in areas such as curriculum revision and equal educational opportunity.

CHAPTER III

THE CONTEXT FOR POLICY DEVELOPMENT

While the underlying problems of school finance have changed only marginally in recent years, they are perceived in a new context. Among the major components shaping the current environment are: the change in the concept of state equalization; the role of the courts in encouraging school finance reform; the new school finance legislation on the state level; the measures in P.L. 93-380 that show Congressional intent to reform school funding systems. This chapter will discuss those developments.

Updating Equalization

As scholars, policymakers, attorneys, and judges in the 1960's and 1970's examined the inequity and inefficiency of school financing, the traditional concept and practice of equalization came in for substantial challenge. Exposure of existing inequities through court cases and prestigious study commissions has led to calls for the abandonment of the traditional approach in favor of full state assumption on the one hand, and to proposals and legislation to modernize existing equalization formulas on the other. It appears that neither approach will be endorsed exclusively and that the school finance scene will be characterized generally by increases in the state share of revenues combined with improvements in equalization systems.[1/] We focus on the transformations

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1/ Joel S. Berke, Answers to Inequity: An Analysis of the New School Finance (Berkeley, Cal.: McCutchan Publishing Co., 1974), Chapters 4 and 6.

that are occurring in school finance formulas by examining the two sides of the financial equation: equalization in local revenue raising capacity and equalization in educational offerings.

The Development of Equalization Formulas

Equalization as a goal of aid to education can be traced in theory to a book by Elwood Cubberly in 1906 and in practice to the early decades of this century.[1/] The purpose of such aid was to raise the quality of education in poor districts to an acceptable minimum and to encourage greater effort for education. Cubberly viewed the provision of an adequate education as a joint state-local responsibility. As an advocate of the "flat grant" (equal per pupil payments), he opposed state distribution of funds based on fiscal characteristics of school districts.

In the 1920's the most familiar school aid formula, the "foundation program", was developed by George Strayer and Robert Haig. [2/] The intent of this program was to relieve the inequities of the flat grant by focusing on fiscal disparities among school districts. The program assured all districts making an acceptable minimum tax effort funding for a state-defined basic spending level. Where the required tax effort, when applied to the local tax base was inadequate to produce the level of the "foundation program", state aid made up the shortfall. Obviously, the poorer the district the greater the shortfall and the higher the proportion of the foundation program the state would support. However,

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[1/] Elwood P. Cubberly, School Funds and Their Apportionment (New York: Teachers College, Columbia University, 1906.)

[2/] George D. Strayer and Robert M. Haig, Financing of Education in the State of New York (New York: The McMillan Company, 1923).

the option of districts to raise local revenues in excess of the foundation level (local leeway) was an integral part of the program. In fact, Paul Mort, one of the most persuasive advocates of a foundation program emphasized this particular aspect of the plan. He felt that local leeway was necessary to encourage adaptability and change within the system. 1/

An early definition of equalization written in 1923 by the originators of the foundation program is still interesting. It makes clear that the purposes of equalization were not simply fiscal but were linked to educational opportunity. The idea that local districts should be allowed to raise more than the guaranteed amount is also stressed.

> There exists today and has existed for many years a movement which has come to be known as the "equalization of educational opportunity" or the "equalization of school support." These phrases are interpreted in various ways. In its most extreme form the interpretation is somewhat as follows: The state should insure equal educational facilities to every child within its borders at a uniform effort throughout the state in terms of the burden of taxation; the burden of education should throughout the state be uniform in relation to taxpaying ability, and the provision of the schools should be uniform in relation to the educable population desiring education. Most of the supporters of this proposition, however, would not preclude any particular community from offering at its own expense a particularly rich and costly educational program. They would insist that there be an adequate minimum offering everywhere, the expense of which should be considered a prior claim on the state's economic resources. 2/

Another approach still common today made its appearance at

1/ Paul Mort and Francis Cornell, Adaptability of Public School Systems (New York: Bureau of Publications, Teachers College, Columbia University, 1938), p. 71.

2/ Strayer and Haig, Financing of Education, p. 173.

about the same time. "Percentage equalizing" stressed local dominance in decisionmaking. Grants were designed to assure that the state would support a share (or percentage) of locally determined educational costs by a formula aiding poor districts more than rich districts. The state determined the proportion of school costs it would support but the districts determined the level. This created an incentive for increased district expenditures, with poor districts receiving more from the state per unit of tax effort than rich districts.

"Full State Assumption" of educational costs was also proposed during this period. The originator of this idea, Henry Morrison, believed that the major purpose of education was to train young people to become responsible citizens. He considered this a fiscal function for each state as a whole, not for its local school districts. 1/

The Failure of Equalization

In practice the equalizing ability of formulas based on these general approaches seldom lived up to its billing. One reason lay in the fact that they usually were enacted with significant limitations: floors to insure that all districts got some aid no matter how wealthy; underfunding of the equalization program; foundation program levels set far below average costs.

Another problem derives from economic and demographic developments. Designed for a time when cities were fiscally healthy and outlying areas

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1/ Henry C. Morrison, School Revenue (Chicago: University of Chicago Press, 1930), p.13.

were impoverished, equalization formulas distributed funds from cities to small towns and rural areas. However with the growth of urbanization discussed in the last chapter, many large cities have seen increasing demands on their resources, yet education aid formulas continued to work to the urban disadvantage. While there are a number of reasons behind this phenomenon, a major one derives from the use of property value per pupil to measure fiscal capacity. Many large cities appear "rich" by the simple measure of property value per pupil, and their state aid tends, therefore, to fall below the average.[1/]

A number of suburban and small town districts also fare badly under equalization formulas. Lacking a commercial and industrial base these districts may have low property tax rolls yet find that the state aid they receive is too small to overcome their disadvantage in local revenues. Even at higher than average tax effort, they fall well down in the distribution of spending levels. In short, not enough state money flows through the equalization formula to make up for disparities in local tax resources. The variation in local tax resources and the leeway for rich local districts to spend without limit has resulted in less uniformity in the capacity to raise revenues (or to provide educational offerings) than early proponents of equalization had envisioned.[2/]

1/ Seymour Sacks, City Schools, Suburban Schools, Education in Large Cities Series (Syracuse, New York: Syracuse University Press, 1972).

2/ Charles S. Benson, The Cheerful Prospect (Boston: Houghton Mifflin Company, 1965). Arthur Wise, Rich Schools, Poor Schools (Chicago: University of Chicago Press, 1968).

The failure of equalization laws to overcome disparities in educational revenues among districts has suggested to some observers that the concept of equalization needs modification. Others, from James B. Conant to the New York State Fleischmann Commission, feel that equalization is the wrong path to follow and propose full state assumption of all educational costs.[1/] A new chapter in equalization, comprising a significant but uncertain component of the current policy context, is being written.

Adapting Equalization to the 1970's: Raising Revenue Fairly

District Power Equalizing

District Power Equalizing (DPE) was one of the first modifications of equalization to be introduced. DPE is thoroughly consistent with the "capacity equalization" tradition which distributes state aid in inverse proportion to local taxable resources. Its innovations are partly a change in emphasis and partly a change in substance. DPE focuses on the effort factor in the finance question, and guarantees that, for any given level of tax effort, all communities will receive an equal level of spending through the combination of local and state revenues. While percentage equalizing formulas can have the same outcome, their formulas make that aspect of their operation less clear.

Possibly more interesting is the fact that power equalizing schedules can result in the redistribution of local educational tax revenues of wealthy districts into state funds available for aid to less well endowed communities. "Recapture", as this aspect of the system is

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1/ Henry C. Morrison, School Revenue (Chicago: University of Chicago Press, 1930). James Conant, Paper presented at the Annual Meeting of Education Commission of the States, 1968. The Fleischmann Report on the Quality, Cost and Financing of Elementary and Secondary Education in New York State (New York: The Viking Press, 1973), vol. 1, pp. 60-65.

generally known, occurs when the DPE schedule requires a higher local tax effort for a given yield than do the tax rolls of wealthy districts. Since the system in its pure form permits retention of only the revenues prescribed in the DPE schedule, the excess is recaptured. No earlier school equalization formulas have included this factor. At least two states (Utah and Maine) have recently enacted district power equalizing provisions with recapture, and several other states have modified the system to permit retention in the district of funds in excess of the guarantee schedule.[1/]

Revising Measures of Capacity

Adjusting Property Value by Income. Estimates of the capacity of local districts to support education from their own resources are an integral part of equalization formulas. Change is occurring in this formula factor as well. Assuming that income is a better reflection of ability to bear tax burdens than are property values, Rhode Island and Kansas have both combined local property valuation with school district income to determine the share of school costs a district must bear out of local resources. In Rhode Island property values are adjusted by the ratio of district income to state income; in Kansas property value and income are added together as the measure of capacity.

1/ W. Norton Grubb, New Programs of State School Aid (Washington D.C.: National Legislative Conference, 1974). Berke, Answers to Inequity, chap. 4 and Appendices D,E,F,G.

Contemporary commission studies have considered other revenue raising variants.[1/] One recent recommendation called for the abandonment of property value in favor of income when measuring capacity of school districts.[2/]

The Economic Index: A Blind Alley. The Economic Index takes into account the value of minerals, agricultural products, payrolls, and value added by manufacturers. This complex measure was adopted in some of the southern states, notably Texas, in the late forties. Complexity, the absence of data on several of its terms, and the tendency to react to economic activity rather than capacity has led to widespread criticism of The Economic Index approach which will probably result in its abandonment as a viable equalizing alternative.

Total Tax Rates

As noted above, one major problem with state equalization systems as they operate today lies in their definition of local tax effort. In particular, the traditional reliance upon educational real property tax rates to measure "how hard a district is trying" to support schools may well be an outmoded approach. In particular, the failure of state education aid formulas to take account of all public

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1/ Joel S. Berke, Alan K. Campbell and Robert J. Goettel, Financing Equal Educational Opportunity: Alternatives for State Finance (Berkeley, California: McCutchan Publishing Co., 1972), Chapter 3.

2/ John J. Callahan, William H. Wilken and M. Tracy Sillerman, Urban Schools and Suburban School Finance Reform: Promise and Reality (Washington, D.C.: The National Urban Coalition, 1973), p. 16.

services that must be provided is a serious drawback.

As a remedy for this shortcoming, five industrialized states (Maryland, New York, Pennsylvania, Michigan, Ohio) have introduced corrections into their effort measures for "municipal overburden."[1/] The most recent, the 1973 Michigan power equalizing aid system, provides that any district which exhibits more than 125 percent of the state average non-educational local tax rate (i.e., tax effort for general governmental services) qualifies for an additional aid distribution. Proposals have also been made for a complete shift to total tax rates as a measure of effort in school finance formulas,[2/] but to date no state has gone further than utilizing the total rate as a correction factor for high tax rates.

New Definitions of Need

In addition to effort and capacity, equalization formulas must take need into account. Perhaps the most widespread change in equalization principles has to do with this factor which evolved from the assumption that different types of pupils and different curricula and programs require different levels of resources. As a result, several recent school finance formulas have included mechanisms for matching resources more closely to diverse needs.[3/]

1/ Callahan, Wilken and Sillerman, Urban Schools, p. 15.

2/ Ibid., pp. 16-17.

3/ Grubb, New Programs

Pupil Weightings

Weightings in nine states are based on the same body of research and social goals which underlies Title I of ESEA -- studies which suggested that children of poverty backgrounds required more intensive school services to compensate for a home environment not geared to success in school. Pupils from families receiving AFDC payments are counted half, three quarters, or twice again as much as "typical" pupils in the distribution of educational aid. Such weightings are included in the general aid formula, not restricted to categorical programs for the disadvantaged. 1/

Grade level weightings are becoming more common; the usual approach is the recognition of higher secondary school cost per pupil due to smaller class size, more highly credentialed teachers and higher facility costs. In Florida, however, the legislature enacted what it thought best practice required, namely greater investment at the lowest elementary levels. The result is a reversal of the most common practice by providing a higher index number for the lowest grades.

Recent laws have also adopted pupil weightings for the physically and mentally handicapped and for the most widely known traditional high cost curriculum, vocational education. In these areas the assumption is that cost data are more accurate and available, as opposed to the situation in the area of the educationally disadvantaged.

1/ Callahan, Wilken and Sillerman, Urban Schools, pp. 13-16.

One interesting study underway at present is being conducted through the Governer's education staff in Texas, where a three-pronged approach to developing weightings is underway. The first study seeks to determine the average costs throughout the state for different educational programs. A second study, based on the practices of 43 exemplary school systems, is designed to determine cost differentials in the most highly regarded school districts in the state. A third project attempts to project expenditure and expenditure differentials a decade or more into the future.

In short, units to determine the levels for resource allocation are undergoing significant change as equalization formulas seek better techniques for assessing educational need.

Cost Differentials

Besides varying with the type of curriculum and type of pupil, costs also vary with the size of a district. While equalization formulas have for some time included corrections for sparse population patterns and the maintenance of small plants in rural areas, only recently have factors been developed to recognize the higher costs associated with density and urbanization. Some states have also recognized the impact of variations from one location to another and have attempted to improve the equity of their school finance formulas by applying cost-of-living adjustments to their education revenue allocations. One state, Florida, uses an adaptation of the Bureau of Labor Statistics, Consumer Price Index (CPI). The major criticism of this approach is the use of the CPI to measure cross sectional differences, since the CPI was designed to measure differences over time. One alternative which has been suggested

is an index based on the salary of wage earners in similar employments.

The difficulties of developing a workable index are considerable. One problem is determining to what area the index should apply. For example, even in Florida where school districts are coterminous with county lines, the use of the school district has been shown to be too small.

The Role of the Courts

In recent years the pace of change in school finance has been quickened by a new vehicle, the law suit. This section will briefly examine and discuss fiscal implications of three areas that have seen increasing litigation in the last decade: (1) school finance reform, (2) accountability, and (3) education to meet the needs of the handicapped and special children.

School Finance Reform and the Courts

The intrusion of the courts in school finance reform is a new phenomenon. A 1965 article by Arthur Wise was the first comprehensive suggestion that inequities in educational funding might be unconstitutional. Wise's argument was that the equal protection clause of the Fourteenth Amendment could be interpreted to require that the quality of education within a state may not vary either due to location or the existence of individual districts. In Rich Schools, Poor Schools, he expanded this argument to include a variety of recent Supreme Court decisions: the conception of education as a right which must be provided to all on equal terms (Brown v. Board of Education, 1954), the holding that poverty may not condition the right to a fair trial (Griffin v. Illinois, 1956 and Douglas v. California, 1963), and the requirement that geography may not serve as a constitutionally valid ground for varying the strength of one's vote (Baker v. Carr, 1962). 1/

1/ Arthur Wise, Rich Schools, Poor Schools (Chicago: University of Chicago Press, 1968).

McInnis v. Ogilvie, one of the first finance reform cases, attempted to have the Illinois school finance system declared unconstitutional for failing to allocate funds according to the particular needs of children. A three-judge court dismissed the case, stating that plaintiffs had not suggested any way the court could determine when the needs of children had been met for the purpose of applying such a constitutional standard.

These legal theories were subsequently refined by a number of scholars, attorneys and organizations. Coons, Clune and Sugarman, in Private Wealth and Public Education, argued that the constitutional infirmity was essentially that of wealth discrimination and asked the courts to strike down financing systems permitting local variations in wealth to determine the spending level of the school districts of a state. 1/ Coons and his colleagues rejected Wise's argument that the equal protection clause required the state to distribute educational resources in proportion to educational need. Instead, the only mandate requested of the courts was that the state provide public education in a manner that does not make it easier for wealthy communities to provide the better education.

Clearly, one reason for this difference in approach was legal strategy, the selection of an argument that required less explicit judicial policymaking. Yet behind the differences in the two legal theories was a philosophical difference as well. Rich Schools, Poor

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1/ Coons, Clune, and Sugarman, Private Wealth.

Schools was more obviously egalitarian, urging primarily that school resources be distributed in a way that insured, at least, equal treatment and at best, a compensatory approach designed to use public resources to overcome learning disadvantages of social and economic origin. Private Wealth and Public Education, on the other hand, placed much greater emphasis on the principal of "subsidiarity," the right of individual units to select different levels of educational offerings on the basis of choice unimpeded by differences in wealth. Where Wise and others were primarily concerned with equality in educational offerings, the "power-equalizing" approach of Coons and his colleagues was primarily aimed at providing tax-rate equality, so that at any level of effort equal educational resources would be produced.

The doctrines put forward by Coons and his colleagues argued that state systems of finance permitting the quality of a child's education to depend on the wealth of the local school district are unconstitutional. This came to be known as the test of fiscal neutrality: only the wealth of the state as a whole, not of its individual school districts, could condition the money available for a child's education.

Fiscal neutrality became the backbone of the California case, Serrano v. Priest. 1/ In a 1971 landmark decision, the California Supreme Court ruled that school finance systems "[should not] invidiously discriminate against the poor [by making] the quality of a child's education a function of the wealth of his parents and neighbors." Serrano triggered a chain

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1/ Serrano v. Priest, 5 Cal. 3d 584, (1971).

reaction. Pleadings already in the courts were recast, and new suits were entered to emphasize the doctrine of fiscal neutrality. In little more than a year, the August 30, 1971, Serrano decision was followed by similar holdings in Minnesota, Texas, Kansas, Arizona, and Michigan. For a variety of reasons the defendants in these cases frequently did not appeal. The Texas case, San Antonio v. Rodriguez,[1/] however, was an exception. The United States Supreme Court heard argument; and, in March 1973, it handed down a 5-to-4 decision reversing the Texas District Court's decision and, more importantly, ending the series of decisions that relied upon the Fourteenth Amendment to invalidate school finance laws.

On one point all nine judges of the court agreed: the system of school finance in Texas was defective and unfair. The majority opinion, written by Justice Powell, concluded that "the need is apparent for reform in tax systems which may well have relied too long and too heavily on the local property tax. And certainly innovative new thinking as to public education, its methods and its funding, is necessary." [2/]

In our view, what divided the judges, was not their perception of the facts but their conception of the role of the Supreme Court in American government. In concluding his opinion for the court, after noting the complexities of school finance questions and the shortcomings of the system in Texas, Justice Powell wrote:

[1/] San Antonio v. Rodriguez, 411 U.S. 1 (1973)

[2/] Ibid., at 58 [p. 235]

> The consideration and initiation of fundamental reforms with respect to state taxation and education are matters reserved for the legislative processes of the various states, and we do no violence to the values of Federalism and separation of powers by staying our hand...[T]he ultimate solutions must come from the lawmakers and from the democratic pressures of those who elect them. 1/

Justice Marshall, on the other hand, opened his sixty-five-page dissent with the following reply:

> In my judgement, the right of every American to an equal start in life, so far as the provision of a state service as important as education is concerned, is far too vital to permit state discrimination on grounds as tenuous as those presented by this record. Nor can I accept the notion that it is sufficient to remit these appellees to the vagaries of the political process which, contrary to the majority's suggestion, has proven singularly unsuited to the task of providing a remedy for this discrimination.
>
> I, for one, am unsatisfied with the hope of an ultimate "political" solution some time in the indefinite future, while, in the meantime, countless children unjustifiably receive inferior educations that "may affect their hearts and minds in a way unlikely ever to be undone." I must therefore respectfully dissent. 2/

The opinion written by Justice Powell for the Supreme Court struck directly at the two basic premises of the lower court. "We are unable to agree that this case," he wrote, "may be so neatly fitted into the mosaic of Constitutional analysis under the equal protection clause. Indeed,

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1/ Ibid., at 58-59 [p. 223-25]

2/ Ibid., at 71-72 [p. 239]

for the several reasons that follow, we find neither the suspect classification nor the fundamental interest analysis persuasive.[1/]

On suspect classification, Justice Powell interpreted the previous cases to require that the plaintiffs must show discrimination against poor people, not just discrimination against people living in poor districts. The Court dismissed the argument with two sentences:

> However described, it is clear that appellees' suit asked this Court to extend its most exacting scrutiny to review a system that allegedly discriminates against a large, diverse, and amorphous class, unified only by the common factor of residence in districts that happen to have none of the traditional indicia of suspectness: the class is not saddled with such disabilities or subjected to such a history of purposeful unequal treatment, or relegated to such a position of political powerlessness as to command extraordinary protection from the majoritarian political process.[2/]

The second principal line of attack on the reasoning of the Texas court's decision focused on the concept that education is a "fundamental" right." The Court concluded that, unlike the fundamental rights of voting and speech, "education, of course, is not among the rights afforded exclusive protection under our Federal Constitution. Nor do we find any basis for saying it is implicitly so protected.[3/]

There were other grounds advanced by the opinion for reversing the Texas decision, including the idea that Texas could discriminate as long

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[1/] Ibid., at 18 [p. 211].

[2/] Ibid., at 28 [p. 162-63].

[3/] Ibid., at 35 [p. 217].

as it assured some education to all. But the two above were sufficient.

Together, the nearly 150 pages of conflicting opinions gave a fascinating glimpse of jurisprudential argument at its most intense. Regardless of that fascination, however, the result of the Rodriguez case is clear: for the forseeable future, the federal courts are closed to those who seek to overturn educational finance systems under any likely equal protection theory. However, state court impetus to school finance reform is not precluded. Less than two weeks after the San Antonio decision the Supreme Court of New Jersey, in Robinson v. Cahill, declared that state's system of raising and distributing revenues for schools unconstitutional.[1/] The New Jersey state constitutional guarantee of "a thorough and efficient system of free public schools" was the basis for striking down a system which resulted in significant disparities between school districts because of reliance on the property tax.

The reasoning of the Robinson opinion appeared to take an entirely different tack from that of the original Serrano decision and its progeny. Unlike previous cases which focused on fiscal equity and required that the state not permit educational spending to be a function of local wealth, Robinson appeared to adopt Wise's argument that educational resources should be distributed in proportion to educational need. Thus the legal arguments have come full circle.

This was not, of course, the first school finance case to be decided on state rather than federal constitutional grounds. In December 1972, the Michigan Supreme Court had also relied on its own constitution to

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1/ Robinson v. Cahill 62 N.J. 473 (1973).

adopt the Serrano reasoning in Milliken v. Green. 1/ Nor was Robinson the last. Idaho, in Thompson v. Engelking relied on the Robinson reasoning in holding Idaho's school finance system unconstitutional. 2/ Thus, the state courts have and will increasingly become the forums in which school finance litigation will proceed.

Accountability and the Courts

In the past year the possibility that non-learners might sue the public schools for money damages has become a reality. A well-publicized suit was filed by a high school graduate, Peter Doe, who asserted that his functional illiteracy was his school's fault. 3/ His claim for $1 million from the San Francisco Unified School District has already led to a national conference on suits by individuals against schools, reports of the case in educational journals and in the press, and a discussion of the suit at the annual convention of the National Education Association.

The defendants demurred Doe's suit and the California court sustained their action. (Interestingly enough, Serrano v. Priest began in the same fashion). The next step in the Doe case is an appeal to a higher court.

1/ Milliken v. Green, 203 N.W. 2nd 457 (1972). Reversed, #53809 (Michigan Supreme Court, December 14, 1973), vacating 203 N.W. 2nd 457 (Michigan Supreme Court, 1972).

2/ Thompson v. Engelking, No. 47055 (Idaho Dist. Ct., Ada County, November 16, 1973).

3/ Doe is a fictitious last name. The practice of using fictitious last names in cases involving children is common.

Despite the recent wave of lawsuits in public education, most previous cases have been on the periphery of the learning process, while suits like Peter Doe's are at the heart of the matter.

Stephen Sugarman described the goals of many damage suits as follo

> Advocates of damage suits by non-learners against the public schools seek institutional accountability toward individual children. They define this individual accountability as encompassing the twin notions that schools should have an incentive to succeed with every child and that when the school failed the child should be compensated for his injury -- non-learning. They believe that if the legal system makes the schooling enterprise financially responsible for its academic failures, these dual purposes will be served. The threat of liability will serve a deterrent function and provide an incentive for school success, while the availability of the damage claim in cases of failure will permit victims to be compensated for their loss.
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> From the viewpoint of education reform the attractiveness of such suits lies in their potential to decrease the number of non-learners rather than in their promise to compensate victims. Education reformers might be happy that victims are compensated if this promoted better schooling, but they would not champion lawsuits against the schools if they merely provided a means for compensating "victims". This is not to say that compensation is not a worthy objective, but rather that it is quite apart from school reform. Some education reformers may question how damage actions will promote school efficiency. They reason that when such suits succeed a school district would have to pay damages out of its general budget. In other words, they predict that local tax revenues will not increase to cover damage costs so the schools would wind up with less money for running the educational system. This prospect seems likely to produce more, not fewer, non-learners. 1/

Proponents of such lawsuits have a different perspective, consid public schools inefficient and believing that much of the money spent educating non-learners is wasted. Schooling is compulsory and most p

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1/ Stephen Sugarman, "Accountability through the Courts," Scho Review, February, 1974, pp. 233-259.

are unable to afford private schools, the argument runs; therefore, public schools have little incentive to be productive. If schools had the incentive of liability, they could reduce the number of non-learners while spending less money.[1/]

While predictions of future judicial decisionmaking are hazardous, indications suggest an increasing role by the judiciary. For example, a suit recently brought by public school students in Philadelphia, Keitt v. Ross seeks redress for last year's shortened school term.[2/]

Those who favor Peter Doe suits are asking a great deal from the judicial system, and there are some questions whether it can deliver. The courts have been slow to accomplish school desegregation even where the rights of blacks are clear. Peter Doe litigation is very similar to malpractice suits and there is good reason for skepticism over the courts' ability to accurately decide the "cause", "negligence", and "damages" questions.[3/]

The Bilingual, the Handicapped, and the Courts

McGinnis v. Ogilvie, as previously mentioned, attempted to have the Illinois school finance system declared unconstitutional because it failed to allocate funds relating to the particular needs of children. Recent law suits have had a narrower focus, successfully asserting the right of children with exceptional needs and handicaps not to be actually or

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1/ Ibid.

2/ Keitt v. Ross, No. 2849 (Pa. C.P., Philadelphia County, Filed January 19, 1973).

3/ Sugarman, "Accountability".

effectively excluded from (1) the educational process and (2) a suitable education. These are not generally regarded as "school finance cases" since courts are unlikely to strike down the whole state structure of school finance or order the financial burden for such needs shifted to the state in this type of case. Yet, such cases may result in substantially increased costs for districts dealing with the greater educational needs of the poor, the handicapped and minority children.[1/]

David Long has recently described the landmark case on the rights of non-English speaking school children.

> In Lau v. Nichols, the United States Supreme Court held that it was a violation of Title VI of the Civil Rights Act of 1964 for a school district to deny non-English speaking Chinese students "a meaningful opportunity to participate in the state's educational program." The Court reversed the Ninth Circuit which had approved San Francisco's practice of putting non-English speaking Chinese students in regular classes from which they could not benefit because of the language barrier. The Ninth Circuit implied that as long as all students were treated alike, it made no difference if the education offered was completely inappropriate for these students. In reversing the Ninth Circuit, the Supreme Court declined to reach the constitutional issue, but instead relied exclusively on Title VI which bars discrimination based "on the ground of race, color, or national origin" in any federally assisted program.
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> One significant aspect of the decision is the Court's approval of federal agency efforts to condition the use of federal education funds on a local school district's meeting the special educational needs of minority group members. The Lau case involved noncompliance by a local district. State education agencies give similar assurances of compliance with federal requirements. In the future, it may be possible to hold states responsible for the non-compliance of local districts

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[1/] David Long, "Litigation Dealing with Urban School Finance Problems: Notes on Future Directions," Clearinghouse Review. September, 1974, p. 334.

> of which they are or should be aware. Moreover, the case suggests that additional thought should be given to the kinds of federal statutes, regulations, and guidelines that would require states and school districts to address the special needs of poor and minority children. Irrespective of whether such provisions would soon be enacted or issued, thought should be given to the kinds of requirements that would be desirable. It is clear that claims based on statutes and regulations stand far greater chance of success today, especially in federal courts, than those based upon the Constitution.[1/]

Lau v. Nichols is significant for an additional reason: although not based on the federal constitution, it may pave the way for suits brought by other children who claim that their constitutional rights are violated by state or local school districts which have either excluded them from any education or have failed to provide them with an educational program appropriate to their needs. A large number of such suits, brought by handicapped children, are pending in both federal and state courts.[2/]

The handicapped child cases raise three basic issues: (1) do such children have a right not to be excluded from public education; (2) do they have a right to an education suited to their needs; and (3) are they entitled to notice and a hearing prior to classification as handicapped. A federal court in the District of Columbia in Mills v. Board of Education has ruled affirmatively on all three issues. The court held that the exclusion of such children from regular classes was a violation of the equal protection clause of the fifth amendment; that procedural due process guaranteed a right to a hearing prior to classification; and that a child determined to be handicapped had a right to a suitable educational pro-

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1/ Ibid., pp. 336-39

2/ Ibid.

gram. [1] At this point it is not clear whether the "suitable education" requirement is based purely on statute and regulations pertaining to the District or whether there is an additional Federal constitutional requirement. In other actions, handicapped children have obtained affirmative rulings on these issues in other Federal courts by consent decree, in state court under the state department of education. None of these cases has yet reached a state Supreme Court, a United States Court of Appeal or the Supreme Court.

The scope of the education reform movement has been substantially broadened by recent litigation. Issues that were not thought of as justiciable a decade ago are coming before the courts with increasing frequency. What has now become clear is that the courts have provided a starting point for reform, with substantial fiscal implications for state and local education agencies.

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[1] Mills v. Board of Education of District of Columbia, 348 F. Supp. 866 (D.C. 1972).

1974 Federal Legislation Encouraging Equalization

During the last year another element of the policy context emerged. Congress considered several measures designed to encourage greater state finance equalization and enacted at least three provisions with that objective in mind.

Major programs to tie substantial new Federal funds to school finance reform have been under committee consideration in the Senate for some time. Bills introduced by Senators Pell,[1] Javits,[2] and Mondale[3] have served as vehicles for continuing interest in such a measure. In October of 1973, the Senate Education Subcommittee arranged testimony to show both sides of the issue of a Federal role in equalizing state finance inequities.[4] The favorable testimony was apparently the basis for an amendment introduced by Senator Bentsen during floor debate on P. L. 93-380. The amendment, passed in the Senate, was later dropped in conference. Although this concept was not enacted, it does indicate sentiment, in at least one house of Congress, to provide a Federal impetus for bringing improvement in the raising and distributing of resources for public education.

Although no major program was passed, the idea of support for equalization was enacted in the following sections of P. L. 93-380:

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[1] S. 1539, the Elementary and Secondary Amendments of 1973.

[2] S. 1900, the State Educational Finance Assistance Acts of 1973.

[3] S. 2414, the Elementary and Secondary Assistance Act of 1973.

[4] Senate hearings before the Subcommittee on Education, Committee on Labor and Public Welfare, 93rd Congress, Education Legislation 1973, Part 6, October 4, 1973.

Section 403 (a) which relates to state plans for the distribution of consolidated funds for libraries, textbooks, and equipment; Section 842 which provides Federal aid for the development of improved state equalization plans, and Section 5 (d) 2 of Title III which permits states to treat P. L. 874 funds as local revenues if states have finance formulas "designed to equalize educational expenditures."

Section 403 (a) (4) Consolidation. State Plans.

When the House General Education Subcommittee was considering consolidation provisions, it was determined to resolve a substantial distributional problem: the tendency of states to distribute discretionary aid programs in ways focusing neither on educational nor fiscal needs of school districts and pupils. The legislative provisions (See Appendix A) require states to give priority to (1) the kinds of school districts suffering from the handicaps of low tax base or (2) higher than average educational needs associated with poverty, bilingualism and sparsity (indicators which tend to identify large city and poor rural areas). While such a distributional formula does not act as a lever for shifting state and local funds, it does embody the kinds of reform goals that are components of current school finance legislation.

Section 842 Assistance to States for State Equalization Plans

The provision in P.L. 93-380 most explicit in demonstrating national

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1/ U.S. Congress. Education Amendments of 1974. Public Law 93-380. 94th Congress, 1974.

concern for school finance problems in Section 842. Planning funds of between $100,000 and $1,000,000 per state were authorized to develop finance plans consistent with Fourteenth Amendment requirements which would enhance equal educational opportunities within states. While it is unclear whether the appropriations will be included in the 1975 HEW funding, the fact that Congress is sensitive to the problem of state funding inequities is apparent.

Section 5 (d) (2) of P.L. 874 Treatment of Payments by the States in Determining Eligibility for, and the Amount of, State Aid.

For the last several years, P.L. 874 has carried a prohibition against the treatment of School Assistance to Federally Affected Areas (SAFA) as local revenues in state aid formulas. In effect, such treatment permits states to deduct the amount of a district's impacted aid from the amount of state aid the district would otherwise receive. A small number of states have objected to this provision arguing that it works counter to their equalization plans and permits some districts to receive "windfall" funding (high state aid plus high P.L. 874 payments). After an interim provision relieved Kansas and New Mexico last year, Congress passed a permanent and general exception to the ban on treating SAFA funds as local revenues for state aid determinations. Section 5 (d) (2) provides that if a state has an equalization formula, it may treat P.L. 874 as local revenue to the extent that the formula equalizes. While the technical provisions implementing these intentions require definition and even some minor revision in the legislative language to make them fully effective, they clearly indicate a legislative intent to require states to have an equitable state aid law before they may deduct SAFA payments from a district's state aid.

Current Policy Considerations

Two other considerations that may influence policy decisions in school finance are the attitudes of taxpayers and the changing economic situation. This section will briefly summarize the possible impact of these factors.

In recent years taxpayers have endorsed school finance reform proposals in theory, but rejected them in the voting booths. A Gallup poll found that 46 percent in 1971 and 55 percent in 1972 responded favorably when asked "Would you favor an increase in state taxes so that real estate taxes could be lowered on local property?"[1/] Nevertheless, in November 1972, electorates in California, Colorado, Michigan and Oregon decisively rejected constitutional amendments which (according to their supporters) would have achieved that goal. What explains the gross inconsistency between citizens' desires, as sampled by widely-accepted polls, and their behavior in the voting booth?

An EFGC funded study by Shalala, Williams and Fishel, The Property Tax and the Voters, suggests some answers. School finance reform is unlikely to occur through external pressures upon the legislative system, whether these are exercised by referenda or interest group activities. Instead, reform is likely to require "an inside job." What the referendum process lacks as a means to this end is sensitive executive and legislative leadership to weave the web of compromises necessary to attract and hold

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1/ Phi Delta Kappan, September 1971 and 1972. 1971: 37 percent against, 17 percent undecided. 1972: 34 percent against, 11 percent undecided.

a winning legislative coalition.[1/]

Other factors which may explain the citizens' rejection of school finance reforms in elections include: the difficulty of explaining amendments on financial matters to the voters; a possible error in the conventional wisdom which assumes a desire for progressive taxation; and the fear of loss of local control over education.

School finance reform measures are not the only example of voter resistance to increased school support. In the early 1970's, signs of the taxpayer revolt were widespread. In California, thirty districts went bankrupt (requiring state loans to continue operating). In 1970/71, a large percentage of the voters in Michigan, New Jersey, New York, and California rejected proposed increases in school taxes and new bond issues.

However, in the last year or so, there have been signs of some abatement in the popular opposition to education spending. Nationwide, voter approval of school bond elections declined from 74.7 percent in 1965 to 46.7 percent in 1971 and went back up slightly to 56.3 percent in 1973.

While the early 1970's may have been the high point in voter resistance to school bond issues and budgets, recent inflationary trends seem to be threatening a resurgence of resistance. Hard and fast judgements on the impact of current economic trends in the financing of public schools are difficult to formulate. The coexistence of both inflation and recession makes prediction hazardous. It is clear, however, that costs in both elementary -- secondary and higher education have soared in the last

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[1/] Donna E. Shalala, Mary F. Williams and Andrew Fishel, The Property Tax and the Voters, (Syracuse, New York: SURC, 1973).

decade. Costs of goods and services in the economy as measured by the GNP price inflators have increased by 65% since 1958. During the same period corresponding costs in education have almost doubled.[1/]

The inflated prices that schools must pay for products have markedly increased the demands on local budgets. Since 1967 the wholesale price for fuel and power has increased 100%; paper and paper products are up 48%; metal products up 74%; chemical products up 43%; and transportation equipment up 23% since December 1968. Construction costs have also risen dramatically: a 66% increase as measured by the Commerce Department's Composite Index. These are all basic costs over which local schools have no control. If relief is to come, it must come as a result of action by a higher level of government.[2/]

[1/] Prices, Costs and Financing of the Education Sector, prepared by Office of the Assistant Secretary for Education, September 10, 1974.

[2/] The Effects of Inflation on Education. National Education Association. September 19, 1974.

SUMMARY

The Problems of School Finance - Chapter I

The fiscal problems confronting American public education suggest that in most states two central difficu'ties affect school finance: first, local educational revenues are raised through finance systems widely perceived as unfair; second, revenues are distributed through mechanisms that fail to relate educational services to educational needs.

Substantial disparities in taxable resources, local tax effort, and revenues per pupil exist among school districts in most states. Districts with low taxable resources can raise average revenue levels only by exerting relatively high tax effort. As a result, many such communities penalize school children by electing less than adequate educational programs. Despite the traditional rhetoric of equalization, most state aid laws fail to overcome disparities in local tax base, and Federal aid is not designed to address the problem

The mismatch between educational needs and local educational resources is most acute in two kinds of districts: impoverished rural districts and large central-city school systems. The former frequently suffer from the effects of low population density and low property valuation; the latter (particularly in the Northeast and Midwest) often suffer from high population density and heavy public service demands on deteriorating tax bases. Where particular suburban districts share these characteristics, our description of urban or rural problems applies to them as well.

Cities must often provide more services than their less densely settled neighbors. They, and sometimes rural areas also, find their needs futher compounded by the higher cost of their educational task. The

developing understanding that different types of pupils require different resources for effective learning is seldom linked to state resource distributions. Few state aid formulas come to grips, through general aid formulas or adequate categorical programs, with the differing needs of pupils with learning problems or special requirements, such as the physically and mentally handicapped, or pupils in vocational programs.

Federal aid programs, on the other hand, are designed for the most part to meet special problems of these kinds. In doing so they often serve the double purpose of meeting special educational and special fiscal needs of atypical school districts. Their magnitude, however, is modest in comparison with the problems they confront.

Disparities in resources and mismatches between services and needs among the districts of a state are paralleled by similar inequities among the states of the nation. The severity of general expenditure disparities among states appears to be somewhat milder than the degree of contrast among the districts within states. However, the real differentials among states are hard to gauge because of three analytical problems: first, the noncomparability of data among states; second, the variation among states in services bought for a given dollar amount; third, the variation in revenues among the districts of a state.

The Federal Role in Educational Finance - Chapter II

Determination of policies to meet these problems rests in part on the view of the Federal role in educational finance. Primary responsibility for the control and support of public elementary and secondary education has rested with the states and their local education agencies. The Federal government, however, has a traditional responsibility for

meeting certain national educational needs. That responsibility has been met occasionally by Federally financed programs, (e.g., research and development) or more commonly by providing incentives for state programs (e.g., programs of categorical aid for such purposes as vocational and compensatory education).

In providing such programs or incentives, the justification for Federal action has been one or more of the following:

1) the failure of states to act in areas of perceived and established Federal goals, particularly in the area of equality of educational opportunity, (e.g., ESEA I, ESAP, Headstart, or Bilingual Education);

2) the national need for a level or type of skill, (e.g., the National Defense Education Act);

3) Federal responsibility to pay for educational needs or costs that are Federal in origin but which affect only a relatively small number of districts, (e.g., Bilingual Education);

4) economy of scale or efficiency of resource use necessary to make some programs financially feasible, (e.g., support for research and development).

In fiscal terms, we assume that overall Federal funds will continue to be significantly less than state/local funding, but the Federal proportion of total educational support will probably increase substantially over the next decade.

The Context for Policy - Chapter III

Policy cannot grow in a vacuum. The context of related policy developments influences conceptions of the goals to be pursued, the strategies and tactics to be employed, and the feasibility of alternative approaches. In the case of school finance, the setting for policy development is undergoing rapid change.

While the concept of equalization has long been a goal of school finance theorists, its failure to compensate for the inequities and inefficiences of state finance systems has led in recent years to an updating of the concept and the development of new approaches. Through the impetus of litigation and state judicial decisions, legislatures have adopted far-reaching reform plans in nearly a dozen states. While the final impact of these reform laws will not be known until they are fully implemented, their potential for change appears to mark a period of reform unprecedented in the history of American school funding. These new state laws clearly reflect two important although partly contradictory goals: first, the equalization of school programs for all youngsters in a state, and second, the equalization of capacity to support education among the school districts of a state.

Congress, too, has reflected the mood of the times. Three provisions of P.L. 93-380 seek to implement new concepts of equalization: first, the requirement that states give priority in the distribution of aid for libraries and learning resources to districts suffering from school finance problems related to low property valuation, urbanism, rural poverty, or educational need; second, an exception to the ban on counting P.L. 874 funds as local revenues for states that have effective equalization plans; and third, the provision of planning money for states to develop new school funding systems.

In summary, the current context for a Federal policy stance on school finance features unprecedented pressure for finance reform from a variety of institutions at all levels of the Federal system.